Austria ... Sch. 20	Indonesia .. Rp 2500	Portugal ... Esc 90
Bahrain ... Din 0.650	Italy .... L 1500	S. Arabia .. Rs 6.00
Belgium ..... Bfr 45	Japan Y550	Singapore .. S$ 4.10
Canada ..... C$1.00	Jordan ...... Fils 500	Spain .... Pts 125
Cyprus £C0.70	Kuwait ...... Fils 500	Sri Lanka .. Rup 28
Denmark ... Dkr 9.00	Lebanon ..... £L 8.00	Sweden ..... Skr 7.00
Egypt £E1.00	Luxembourg .. Lfr 45	Switzerland .. SFr 2.20
Finland ... Fmk 6.50	Malaysia .... Rm 4.25	Taiwan ...... NT $65
France ..... Fr. 6.00	Mexico .... Pes. 300	Tunisia ..... Din 0.600
Germany ... DM 2.20	Morocco ..... Dh 6.00	Turkey ...... L 250
Greece ...... Dr 90	Netherlands .. Fl 2.75	U.A.E. ...... Dh 6.50
Hong Kong .. HK$ 12	Norway ...... Nkr 7.00	U.S.A. $1.00
India .... Rup. 15	Philippines .. Pes. 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,827 Monday January 13 1986 D 8523 B

Singapore boosts role in aerospace, Page 4

World news

Denmark poised to block EEC plan

DENMARK is poised to block the reforms of the EEC agreed by member governments at the Luxembourg heads of government meeting in December.

This became clear last night when former Prima Minister Anker Jørgensen, leader of the Social Democratic Party, the country's largest party, indicated that he did not believe that his party would agree to the reforms.

A Danish decision not to accept the reforms might cause a crisis within the EEC and between the Community and Denmark.

US ship boarded

US merchant ship President Taylor was boarded by the Iranian navy in international waters outside the Gulf and searched for two hours to determine whether it was carrying war supplies for Iraq in the first incident of its kind.

Ceasefire ends

Tamil rebels announced they would no longer observe an eight-month-old truce with Sri Lankan security forces and claimed that army atrocities were the cause.

Cairo flats collapse

Five neighbouring blocks of flats in Cairo collapsed killing at least 10 people and injuring many others.

Howe warning

Sir Geoffrey Howe, UK Foreign Secretary, warned moderate Palestinians that they were being discredited by terrorist colleagues as he started a series of meetings with Arab Gulf leaders. Page 2

Smokers in gunfight

A refusal by some students to pay for cigarettes and food at a railway station in the southern Pakistan province of Sind prompted a gunfight in which three people were killed and nine wounded.

Punjab doctor killed

Gunmen in the Indian state of Punjab shot dead a doctor and wounded another person shortly after a senior policeman warned of an increase in attacks by Sikh extremists.

Parliament debut

Spanish and Portuguese members of the European Parliament take their seats in Strasbourg for the first time today after admission of the countries to the Community on January 1.

Italy terror target

Italian Prime Minister Bettino Craxi told Parliament that Italy was likely to remain a top target for terrorists, citing detection by intelligence services of more than 70 foreign spies in the past six months.

Columbia lift-off

US space shuttle Columbia finally took off on its latest mission, 24 days after the originally scheduled date, after a record seven postponements because of mechanical faults and bad weather.

Soviet to Tokyo

Eduard Shevardnadze's arrival in Tokyo later this week will mark the first visit by a Soviet Foreign Minister to Japan for 10 years. Page 3

Nicaragua focus

Latin American foreign ministers of the Contadora group and a support group of four other countries ended a conference in Venezuela with a call for a strengthening of democracy in Nicaragua and lessening of tension between Managua and Washington.

Warning ignored

Greenpeace flagship continued its journey to a planned Antarctic base camp despite warnings about hazardous conditions in the area, where 21 people were rescued from a sinking British expedition craft on Saturday.

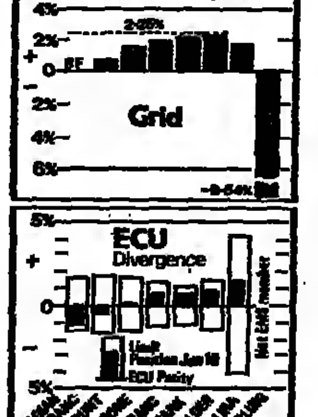
Business summary

GTE plan to stem losses at Sprint

GTE, US telecommunications group, is expected to announce plans later this week to stem losses at its troubled GTE Sprint long-distance telephone unit. Page 12

SENIOR OFFICIALS of Schroeder, Münchmeyer Hengst – the private bank that almost collapsed in 1983 after heavy overlending – go on trial in Frankfurt today. Page 12

EUROPEAN Monetary System: Trading was very active but currencies finished the week showing little overall change. The US dollar had been helped by better US unemployment figures but then retreated on rumours concerning Arab disinvestment in the US. Consequently, the dollar finished little changed against the D-Mark and the latter failed to exert further downward pressure on the weaker members. The Belgian franc remained the lowest currency but stayed well within its divergence limit.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO Stock Exchange was closed on Saturday.

INTERNATIONAL Tin Council holds its first meeting tomorrow since before Christmas amid signs that many member governments are moving towards supporting a negotiated settlement of the tin crisis. Page 12

COFFEE: African coffee exporters called for immediate suspension of all export quotas set under the 1983 international coffee agreement, hoping to increase supplies and reduce prices. Page 12

HONG KONG'S fully computerised stock exchange is expected to open in March after settlement this weekend of a long-standing dispute over the terms under which bank-related stockbrokers will be able to operate. Page 15

NORWAY announced a controversial package of money market measures aimed at curbing the steep rise in lending. The moves are expected to push up interest rates.

GHANA announced a one-third devaluation of its currency and a 28.5 per cent increase in the minimum daily wage. Page 3

US SUPPLIERS to the North Sea offshore oil industry discussed a possible merger of all their UK subsidiaries with their British rivals after pressure from the British Department of Energy. Page 6

LASMO, leading UK oil company, is contesting the right of Agip, Italian state oil company, to take charge of development of T-Block, the largest undeveloped oil accumulation in the North Sea. Page 6

CADBURY-SCHWEPPES, UK soft drink and confectionery manufacturer, was expected today to announce plans to sell a large part of its UK beverages and food division.

Leutwiler expects reform to ease SA debt problem

BY JIM JONES IN JOHANNESBURG AND PETER MONTAGNON IN LONDON

DR FRITZ Leutwiler, the former Swiss central banker, who is mediating between South Africa and its creditor banks, left the country last night convinced that political changes will be announced in the near future which will help to extricate South Africa from its debt crisis.

He expects the announcement to persuade foreign banks of the country's stability and to persuade them to again give South African borrowers access to foreign capital markets.

However, senior international bankers said last night they were sceptical that the scope of political change to be introduced in South Africa would be sufficient to swing the world's banking community behind even sharply revised rescheduling proposals.

They said they were perplexed by the Swiss mediator's apparent change of course. In recent weeks he has been unflinching and outspoken in his condemnation of apartheid and warned that far-reaching reforms would be needed before South Africa could begin to hope for a resumption of normal international financial relations.

Dr Leutwiler's latest comments came in an interview with journalists shortly before he left South Africa after three days of meetings with President P.W. Botha, politicians, businessmen and bankers.

He said: "I leave this country with the conviction that positive signals (of further reform) will be given in the not-too-distant future.

"I also feel confident about the way out of the present financial problems. The time has come for a second meeting with the major creditor banks. It will take place in the second half of February. I trust that the proposals I put forward will be acceptable to both the South African authorities and all creditor banks."

He later qualified this by saying the agreement of all creditor banks was needed before the debt crisis could be settled. The form this could take could be what he called "a silent agreement," implying a formal written agreement, which could be embarrassing to US banks, was not necessary.

In September South Africa unilaterally froze a foreign debt repayment of $14bn after foreign banks, disturbed by the country's apparently deteriorating stability, had refused to roll over credit lines and had called for repayment on maturity. A further $10bn, guaranteed by the government, was excluded from the repayment standstill.

Since then South Africa's central bankers have been negotiating through Dr Leutwiler with the creditor banks.

Preliminary rescheduling proposals made by the South Africans early in December were rejected by the foreign banks shortly before Christmas. Dr Leutwiler said yesterday that he would be giving significantly revised proposals to foreign creditor banks when he next met with them and emphasised that the agreement of all the banks was necessary.

Dr Leutwiler refused to disclose what "positive signals" he expected and said that President Botha had not spelled out in detail what they might be; neither had he asked. He added, however, that he had read speeches made by President Botha

Continued on Page 12

UK interest rates 'will remain high' to defend £

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

THE British Government has accepted that interest rates will have to stay significantly above those of its international competitors at least until the next general election in order to defend the pound.

Mr Nigel Lawson, the Chancellor of the Exchequer, who spent this weekend in pre-budget strategy talks with his Treasury colleagues, would still like the opportunity to take sterling into the European Monetary System.

Senior ministers, however, say that there is no sign that Mrs Margaret Thatcher, the Prime Minister, is wavering from her long-standing opposition to membership of the European joint-currency float.

The weekend talks, in Chevening, Kent, are thought to have focused on the likely scope for tax cuts in March in the wake of falling oil prices and last week's 1 per cent rise in lending rates to forestall a run on the pound.

Whitehall officials insist that no firm decisions could be taken at the talks because ministers will not have the Treasury's latest economic forecast until early next month. The budget is widely expected to be on March 11, but no definite announcement will be made until later this week.

The officials, however, have not been discouraging City of London speculation that, barring a renewed slide in oil prices the Government might lower taxes by up to £2bn ($2.9bn).

At the same time, the Treasury has been quietly canvassing City opinion on the level of tax cuts and public borrowing that could be announced without damaging confidence in financial markets.

One key decision facing the Chancellor over the next two months will be whether to change the tentative target of £7½bn for the public sector borrowing requirement (PSBR) in the 1986/87 financial year.

Lower oil revenues and the perception that the level of interest rates over the next two years will be dictated essentially by the need to defend the pound rather than by government borrowing, might argue for a slightly higher target.

Many city economists, however, believe that the acceleration of asset sales announced last November, should be offset by a compensating cut in the PSBR in order to hold down the more widely defined budget deficit.

The Chevening meeting is also understood to have discussed whether the scope for tax cuts should be used to cut the basic rate for income tax or to raise thresholds.

At present Mr Lawson appears to be leaning towards a cut in the basic rate from the present 30 per cent. Apart from the obvious political attraction of such a move, the Treasury argues that it would improve incentives by reducing the marginal tax rate on the great majority of taxpayers.

Some other senior ministers, led by Lord Young, are thought, however, to favour a significant increase in the thresholds at which tax becomes payable in order to ease the poverty and unemployment traps.

The Government's acknowledgement that interest rates will have to stay above those of Britain's competitors reflect the view that lower inflation will be the key economic priority in the run-up to the election.

Unrest in UK markets, Page 7

Sikorsky threat to pull out of Westland fight

BY LIONEL BARBER IN LONDON

SIKORSKY, the US helicopter maker, said yesterday that it was considering pulling out of the battle over the future of Westland, depending on the outcome of tomorrow's extraordinary general meeting of shareholders to vote on the rescue plan which it put forward along with Fiat of Italy.

Mr Bill Paul, vice president of United Technologies, Sikorsky's parent company, said in an interview yesterday: "It will depend on how many votes we get and the support of institutional shareholders. One scenario is to walk away."

Mr Paul's comments, timed to exert maximum influence on Westland's institutional shareholders before tomorrow's planned vote, came as Sir John Cuckney, Westland's chairman, again raised the prospect of adjourning the meeting to be accompanied by a revised Sikorsky/Fiat rescue plan.

Last night Lazard Brothers, advising Westland, said that on a preliminary count, shareholders' votes representing 42 per cent of the equity had been received by proxy, with 91 per cent in favour of the Sikorsky/Fiat plan. If the remaining undeclared institutions support the Westland board at tomorrow's meeting, the Sikorsky/Fiat offer may achieve a 71 per cent majority, falling by just 4 per cent to secure the necessary majority, Lazard said.

By the weekend it was becoming clear that the Westland board and Sikorsky have a near impossible task to secure a 75 per cent majority vote.

Two hostile stakes amounting to 17 per cent, held by Mr Alan Bristow, the helicopter millionaire, and United Scientific Holdings, the UK defence contractor, have declared themselves in favour of the rival rescue plan put forward by the four-nation European aerospace consortium and rejected by the Westland board.

Mr Bristow disclosed that he had been contacted yesterday morning by Sir John, who had suggested that he sell his 12 per cent block of shares. "He offered me a substantial profit," said Mr Bristow, who bought 7.5 per cent last Thursday for almost £5m ($7.25m), well above the market price, "but I said I was a long-term investor."

Speaking on television Sir John said of tomorrow's meeting: "There are two considerations: one is the likelihood of getting the two special resolutions through (on the Sikorsky/Fiat deal); the other is whether with all the political trauma and drama, it wouldn't be wiser to have a cooling-down period."

Hinting at contingency plans if the favoured Sikorsky/Fiat plan was blocked, Sir John said: "People have become understandably slightly rigid in thinking the only solution is a capital reconstruction of the type we have put forward . . ."

Mr Michael Baughan, a director of Lazard, confirmed yesterday that one option would be to come up with a revised Sikorsky/Fiat plan which would require an ordinary resolution to be put to shareholders and therefore only a 50 per cent majority vote in favour.

The problem appears to be that the Westland board would have to negotiate a capital reconstruction plan with the company's bankers, National Westminster and Barclays, which under the original proposal have agreed to convert about £22m of debt owed to them into preference capital.

An ordinary resolution would require the parties involved to agree to taking up ordinary, as opposed to preference, shares in a recapitalised Westland. Banks are usually very reluctant to hold ordinary shares in the company.

A second obstacle could be the attitude of Sikorsky which yesterday floated for the first time the idea of abandoning its rescue plan for Westland, although Mr Paul said: "I am not going to discuss tactics before the shareholders meeting because the situation is changing almost by the hour."

Mr Paul said one factor affecting his company's possible decision to withdraw was the political controversy surrounding Westland. One option was to seek another European partner, in line with Sikorsky's strategy of "sharing resources and markets" with a major helicopter maker in Europe.

John Hunt writes: former UK Defence Secretary, Mr Michael Heseltine, yesterday accused Mrs Margaret Thatcher, the Prime Minister, of conducting a "whispering campaign" against him by means of non-attributable briefings from her press officers.

He denied suggestions that he had been isolated in the Cabinet economic committee on the Westland issue before his resignation last Thursday. In fact, he said, a majority of ministers had backed his policy of keeping alive the European solution.

He called Mrs Thatcher's conduct of the affair "an affront to our constitutional practice" and challenged her to come out into the open and put her statements on the record personally.

Background, Page 7; Editorial comment, Page 10; Feature, Page 11

Templeton set for £300m listing in UK

By Barry Riley in London

AN AMERICAN investment wizard who started his money-making career at the age of eight in Winchester, Tennessee, by cornering the local market in Independence Day fireworks, and who paid a quarter of his Yale college fees out of poker winnings, might see a valuation of about £300m ($435m) put on his fund management business by the London Stock Exchange next month.

Mr John M. Templeton's mutual fund and pension fund management business – Templeton, Galbraith & Hansberger – will be floated next month by London stockbrokers Cazenove, in a time slot originally allocated to the Trustee Savings Banks Group. A quarter of the issued shares to the Cayman Islands-registered company are to be offered to the public.

The decision to list in London rather than the US, where he is better known, owes much to Mr Templeton's wish to maintain his independence from US tax jurisdiction. But he has many links with Britain: He took British citizenship after moving to the Bahamas in the late 1960s, and his British posts include one of the five trustees for endowments of Balliol College, Oxford.

In a long career the 73-year-old fund manager has achieved Wall Street fame as a global investor of legendary patience and bargain-spotting ability. From Lyford Cay, Grand Bahama, he surveys the world's markets untainted by the day-to-day pressures and distractions of Manhattan.

Mr Templeton's success in investment has been achieved, he has said, by adherence to 22 guiding principles. Those include: "It is impossible to produce a superior performance unless you do something different from the majority"; and "The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

Over the years his portfolios have often been populated by little-known companies in out-of-the-way countries. His maxim 11 states: "If you buy the same securities as other people you will have the same results as other people." In the 1960s he was a pioneering investor in Japan. But recently, much of his funds' money has been going into US stocks.

The $1.4bn Templeton Growth Fund is now ranked first in terms of growth during the past 20 years by Johnson's Charts in the US.

Background, Page 16

Chinese to apply for membership of Gatt

BY DAVID DODWELL IN HONG KONG

CHINA is to apply to rejoin the General Agreement on Tariffs and Trade (Gatt) after an absence of more than 35 years, Zhao Ziyang, China's Prime Minister, has told Mr Arthur Dunkel, Gatt director general.

Chinese officials quoted by the New China newsagency said that Peking was keen to complete arrangements for entry before the start of the new Gatt round of talks, scheduled to be formally launched in October.

Gatt officials say, however, that China's re-entry will be possible only after complex negotiations, pointing out that the country's import restrictions and export subsidies are likely to be at odds with Gatt rules.

China was one of the founding members of the Gatt in 1948, but left the organisation in 1950 soon after the Communist takeover of the country. It has had observer status since 1984.

Re-entry is in line with China's open-door policy under which the Government aims to boost development by fostering foreign trade and investment, Zhao told Mr Dunkel, who is on an official visit to China.

China joined the Multi-Fibre Arrangement, which regulates a large part of world trade in textiles and clothing two years ago and this was seen at the time as a forerunner to a decision to apply to join Gatt.

China's plan to rejoin Gatt has significant implications for Hong Kong, which has Gatt membership by virtue of Britain's membership.

A team of officials returned to Hong Kong from Peking this weekend after four days of talks on Hong Kong's future status under international trade agreements after 1997. They made no statement on the substance of their talks, which were described as "detailed and technical."

Hong Kong's membership of Gatt has separate status from that of Britain. Britain has declared Hong Kong a separate customs area responsible for its own commercial policies. That will have to be renegotiated when sovereignty is transferred to China.

Pennzoil challenges court ruling

By William Hall in New York

PENNZOIL, the medium-sized US oil company which has claimed $11.1bn in damages from Texaco, the international oil giant, is seeking an early hearing of its appeal against last Friday's Federal Court ruling that Texaco need not post a $12bn bond in order to challenge the record damages award.

If the Federal Court ruling, granting Texaco a preliminary injunction against Pennzoil and limiting the size of the appeal bond to $1bn is upheld it will be a setback for Pennzoil, which wants massive damages from Texaco.

The two companies have been locked in a bitter legal battle for the two years since Texaco bought Getty Oil for $10.3bn days after Pennzoil had agreed to acquire the company. Last week Pennzoil rejected an out-of-court settlement from Texaco. Its shares have been moving erratically as Wall Street tried

Continued on Page 12

CONTENTS

OVERSEAS NEWS

Howe warns moderate Palestinians

BY ROGER MATTHEWS IN MUSCAT

SIR GEOFFREY HOWE, the British Foreign Secretary, yesterday warned moderate Palestinians that they were being discredited by recent outbreaks of terrorism and said the peace process was suffering as a result.

With King Hussein of Jordan in London and Mr Shimon Peres, the Israeli Prime Minister, due to arrive on January 21, there is an opportunity for Mrs Margaret Thatcher, the Prime Minister, to investigate possibilities for repairing some of the political damage caused by the attacks at Rome and Vienna airports.

Sir Geoffrey made his remarks in Oman at the start of four days of intensive consultations with Arab Gulf leaders. He travels to Saudi Arabie today and Kuwait on Wednesday.

The British Government believes that the response to terrorism must be two-pronged. There has to be greater international co-operation on security measures, but the root causes have also to be tackled. This means a peace process aimed at resolving the Palestinian issue.

Sir Geoffrey told Mr Youssef Alawi, the Omani Minister of State for Foreign Affairs, that there was growing evidence of Libyan involvement in the recent airport attacks. However, Britain has already made it clear that it will not support economic sanctions against Libya and is opposed to military retaliation.

The Foreign Secretary stressed Britain's full support for King Hussein's peace efforts. But he also expressed his pleasure that the King was again talking to President Assad of Syria, a development which has caused some alarm in Israel and the US, and at senior levels of the Palestine Liberation Organisation (PLO).

The US and Israel both believe that Syria is an obstacle to peace. There is also a wide rift in understanding between President Assad and Mr Yassir Arafat, the PLO chairman.

Sir Geoffrey will be anxious for an assessment from Saudi Arabia on the significance of the Jordanian-Syrian rapprochement. Saudi Arabia was largely responsible for re-establishing contacts between the two countries but also remains one of the main sources of finance for the PLO.

The other main theme of Sir Geoffrey's trip is the Gulf war between Iran and Iraq, now in its sixth year. Oman has adopted a neutral stance and has been seeking, without success, to mediate between the two countries.

Sir Geoffrey and Sultan Qaboos, Oman's ruler, agreed after four hours of talks yesterday that hopes for an end to the fighting remained very gloomy.

Italian Prime Minister Bettino Craxi has warned that because of unresolved conflicts in the Mediterranean region Italy runs a high risk of more guerrilla attacks like the airport gun battle in which 16 people died last month, Reuter reports from Rome. He said in a half-yearly report to parliament on the activities of the civilian and military intelligence services that they had unmasked more than 70 foreign spies in the past six months, an above-average haul interpreted as a sign of Italy's vulnerability to external ferment. Mr Craxi listed the Palestinian problem and Lebanon as two of the "high risk factors" that threatened Italy with further guerrilla violence.

Peres stays firm on Taba deal

BY TONY WALKER IN TEL AVIV

MR SHIMON PERES, Israel's Prime Minister, was yesterday determined to force through an inner Cabinet meeting a package of measures to help settle the Taba dispute with Egypt.

Officials of Mr Peres's Labour Party were saying on the eve of the inner cabinet deliberations that the Prime Minister would not tolerate further delay and was prepared to risk the collapse of the national unity government.

Ministers of the right wing Likud bloc have repeatedly deadlocked the inner cabinet on the Taba question, demanding that the dispute be settled by conciliation rather than arbitration. Egypt has insisted that it be resolved by arbitration.

Mr Yitzhak Shamir, Israel's Foreign Minister and leader of Likud, indicated support on Friday for the package. He said differences with Labour could be bridged.

Agreements with Egypt, thrashed out over six months by Egyptian and Israeli negotiators, provide for a mix of conciliation and arbitration, and guarantees of access for the loser to Taba, a narrow strip of land on the Red Sea that Israel retained when it handed the rest of Sinai back in 1981 under the terms of the 1979 peace treaty.

The deal also includes agreement on the return of Egypt's ambassador, withdrawn in protest at Israel's invasion of Lebanon, and on the resumption of cultural and commercial arrangements frozen for the past several years.

Israel may probe Barclays Discount Bank

By Lynne Richardson in Tel Aviv

BARCLAYS Discount Bank, jointly owned by Barclays of the UK and Israel Discount Bank, is to be considered for investigation by the Bank of Israel, the central bank, with regard to trust receipts issued to diamond merchants.

During the boom days of the diamond industry, trust receipts worth hundreds of millions of dollars were issued to dealers by Israeli banks to cover loans againsth diamonds.

Barclays Discount was particularly active in this field and, when many dealers defaulted as the diamond market slumped in 1981, the bank claimed against Lloyd's, its insurers.

After investigations which showed "startling abuses of the trust receipts system," according to a lawyers' report, Lloyd's settled the claim with Barclays Discount, who charged one dealer with theft.

However, the dealer has now been acquitted of stealing $100,000 (£714,000) worth of diamonds from Barclays Discount, and the Tel Aviv district judge suggested the central bank investigates the procedures for trust receipts at Barclays Discount.

Mr Gideon Lahav, chairman of Barclays Discount, denies any irregularities.

Canada curbs high-tech sales to Libya

By Bernard Simon in Toronto

CANADA has imposed limited economic sanctions against Libya in response to American requests for action against the Gaddafi Government.

The curbs include an outright ban on sales of high technology oil-drilling equipment and an end to all government assistance to Canadian companies trading with Libya. The Export Development Corporation will no longer provide credit insurance for Canadian exports to Libya.

The Government in Ottawa said it will not allow Canada to be used as a conduit for embargoed US goods. Government officials have asked several companies, especially in the oil sector, not to take advantage of the US boycott to expand their own business in Libya.

The authorities stopped short of ordering 1,300 Canadians working in Libya to leave the country, but have urged them to reconsider their future security.

Canada's exports to Libya totalled C$72m (£36m) in the first nine months of last year. More than half was heavy machinery, mainly for the oil industry. Other sales included wheat and powdered milk.

Gemayel and Assad set to talk on Lebanon peace plan

BY NORA BOUSTANY IN BEIRUT

THE Lebanese president, Mr Amin Gemayel, is expected in Damascus today for another meeting with his Syrian counterpart over a peace and reform package aimed at ending Lebanon's civil war.

The President's opposition to some of the political clauses in the accord, signed on December 28, has boosted his standing in his own religious community. Despite continuing rumblings of unrest, however, Mr Gemayel is likely to back the agreement provided certain modifications are made in the course of implementation.

Mr Nabih Berri, Lebanon's Shi'ite Moslem leader, warned Mr Gemayel over the weekend he will be forced to accept the agreement in the same way he was forced to scrap the May 17 withdrawal accord with Israel. The Lebanese Cabinet revoked the May 17 accord in March 1984 following a crushing defeat of Lebanese Army soldiers at the hands of Moslem militiamen in control of west Beirut.

Syria has made it plain it expects the peace plan to be implemented. Political observers here say, however, that Syrian President Hafez Assad is willing to listen to Mr Gemayel's grievances. Mr Gemayel was displeased with his exclusion from negotiations leading up to the Damascus pact. Mr Berri, Mr Walid Jumblatt, Druze leader, and Mr Elie Hobeika, Christian militia commander, discussed and signed the accord late last year.

Mr Hobeika was then believed capable of securing unquestioned support for the accord. However, Christian discomfort with the loss of traditional privileges and objections by the Lebanese military establishment to a Syrian-supervised rehabilitation of the Lebanese Army have refuelled a struggle for influence in Christian areas.

Mr Hobeika faces challenges by forces loyal to Mr Gemayel and dissident Christian militiamen who back the more hawkish Christian commander Mr Samir Geagea.

The phalange party, which backed the president during a militant Christian uprising last March, said recently the accord needed correcting. It termed the limits placed on the powers of the advantaged Christian minority as "arbitary" and giving rise to fanaticism and chaos.

Such criticisms and a failed assassination attempt against President Gemayel on December 31 have increased the isolation of Mr Hobeika, who was becoming Syria's main ally in the Christian community.

FINANCIAL TIMES

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter-Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main, Guiollettstrasse 54, 6000 Frankfurt am Main 1. © The Financial Times Ltd, 1986. FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $365.00 per annum. Second class postage paid at New York, N.Y. and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 14 East 60th Street, New York, N.Y. 10022.

OVERSEAS NEWS

French court to rule in Hersant takeover battle

BY DAVID HOUSEGO IN PARIS

A FRENCH commercial court will give judgment tomorrow on the first stage of the growing legal battle between the French Government and the Hersant newspaper group over the future of the Progrès de Lyon.

The Government is seeking to reverse the takeover eight days ago of the Progrès, one of France's largest provincial papers, by Mr Robert Hersant, the right-wing press magnate, in defiance of recent legislation on newspaper ownership.

Mr Hersant is counting on a change of government at the March parliamentary elections to save him from further prosecution.

In an initial move, the Government on Saturday asked the Paris commercial court to appoint a temporary administrator for the paper on the basis that the Hersant group's acquisition of the Progrès was illegal.

The commercial court has given itself until tomorrow to announce its decision. The postponement reflects the complicated issues that are at stake.

Not the least of these is that a temporary administrator would be responsible for assuring that staff salaries were paid and for covering tha debts of the Progrès group of papers, estimated at FFr 180m (£15m).

The legal battle over Mr Hersant's takeover of the Progrès does not come before the civil courts until later this month.

Mr Hersant over the weekend sought to reinforce his position at the Progrès by paying salaries for December — including the "13th month" salary to which French employees are traditionally entitled at the end of the year.

For the Government to have any chance of success in the battle against Mr Hersant, it needs to find an alternative purchaser for the Progrès de Lyon and its sister papers. Among names being mentioned at the weekend was that of Sir James Goldsmith, who already owns the successful French magazine L'Express.

The official commission on transparency and pluralism in the French press has already called Mr Hersant's takeover of the Progrès illegal.

Socialist Party makes opinion poll comeback

BY OUR PARIS CORRESPONDENT

THE MORALE of the French Socialist Party is being boosted by a modest though significant comeback in the party's standing in public opinion polls as the campaign for the March parliamentary elections gets under way in earnest this week.

A new poll published yesterday shows a further 2 per cent rise in President Francois Mitterrand's popularity, with 36 per cent showing confidence in him—the highest level since September 1983.

The latest poll confirms the trend since the middle of last month showing a recovery in the Socialist Party's popularity.

Three of the major polling institutes—Sofres, Ifop and BVA—have recently reported that, on present voting intentions, the Socialists would score between 26-27 per cent of the votes.

This compares with their 23 per cent in the 1984 European elections—a level they have maintained until recently.

The Ifop Journal de Dimanche poll yesterday showed a significant decline in the ratings of Mr Jacques Chirac and former President Giscard d'Estaing, two opposition leaders.

With only two months to go to the elections on March 16, the public opinion polls nonetheless forecast that the right (excluding the extremist National Front) will have an absolute majority of seats in the National Assembly.

Feature, Page 10

Honecker in 'candid' talks with US delegation

By Leslie Colitt in East Berlin

A US CONGRESSIONAL delegation has held "extraordinarily candid" talks with East Germany's leader, Mr Erich Honecker, at which he expressed his hopes for improved political and economic relations with Washington.

East Germany is actively seeking to develop its dormant links with the US, which is responding by increased attention from the State Department and the arrival of the congressional delegation, which was the first to meet an East German leader.

Mr Tom Lantos, Democrat, and head of the House of Representatives subcommittee on Europe and the Middle East, led the 11-member delegation which met Mr Honecker.

He said the "historic meeting" would mark the start of improved bilateral ties. The US group left East Germany yesterday.

Relations between the US and the Soviet Union's leading East European ally began to thaw in 1984, when East Germany made no political retaliation against the deployment of new US missiles in West Germany. Last year, Mr Honecker was prevented by Moscow from making what would have been his first visit to West Germany.

Washington now includes East Germany in regular background briefings on US policy by senior State Department officials. The latest contact took place in East Berlin after the Geneva summit conference of the US and Soviet leaders. The only other Warsaw Pact countries to get similar treatment were Hungary and Romania.

In addition to wanting to demonstrate it is not merely a Soviet satellite, East Germany would like to obtain most favoured nation (MFN) tariff status in the US, which would have to be approved by Congress. East Germany's State Secretary for Foreign Trade, Mr Gerhard Beil, was present during the delegation's meeting with Mr Honecker.

The Congressmen suggested to Mr Honecker that the 750th anniversary of Berlin's founding next year would be an ideal opportunity to remove the Berlin Wall.

Shevardnadze takes the Japanese trail

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET Union starts a significant new approach to relations with Japan this week when Mr Eduard Shevardnadze, the Soviet Foreign Minister, starts the first visit to Tokyo for 10 years by a Soviet Foreign Minister.

The new leadership in the Kremlin under Mr Mikhail Gorbachev takes the political and economic strength of Japan in the world more seriously than its predecessors. The Communist Party daily Pravda said yesterday that Soviet-Japanese relations "do not correspond either to their political weight in world affairs or their economic potential."

Tokyo asked for a foreign ministerial visit from the Soviet Union six years ago.

Pravda said yesterday that the deterioration in relations in the late 1970s was caused by Japanese participation in US economic sanctions against the Soviet Union and territorial claims on Soviet territory.

A further reason for poor relations is that Mr Andrei Gromyko, Soviet foreign minister for 28 years, tended to underestimate Japanese strength.

The Japanese claim to the four Kurile islands north of Hokaido which the Soviet Union took in 1945 remains an obstacle to the conclusion of a formal peace treaty between the two countries. When Mr Gorbachev met Mr Yasuhiro Nakasone, the Japanese Prime Minister, at President Chernenko's funeral in March he told him that there would be no change in the Soviet position on the Kuriles.

Despite this, and other obstacles, Moscow has shown an interest since last summer in pursuing better relations with Japan. The new leadership is conscious of Japanese economic strength, its military potential and increased diplomatic activity under Mr Nakasone who in October offered talks on concluding a peace treaty.

Mr Shevardnadze probably does not expect any immediate political benefits from his visit but is interested in improving the atmosphere between the two countries. The Soviet Union has a long-term interest in keeping Japan as distant as possible from both the US and China and improving the image of the Soviet Union in the eyes of Japanese public opinion.

There is also the question of increased trade with Japan in which Moscow is seriously interested. Pravda pointed out yesterday that in 1970 Japan was the Soviet Union's first or second biggest trading partner among developed capitalist states but by 1984 had dropped to sixth place. Exports to Japan in that year were $1bn and imports $2.5bn.

The priority given in Soviet investment plans over the next five years to re-equipping Soviet plant with high technology and improving the quality of machinery has increased interest in Japan as a supplier. Japanese companies are bidding for two large petrochemical projects currently out to tender, and their success would be a sign of a change in Soviet trading policy in their direction.

Shultz to visit Athens

BY ANDRIANA IERODIACONOU IN ATHENS

MR GEORGE SHULTZ, US Secretary of State, is to pay an official visit to Athens on March 25 during which he is expected to talk to the Socialist Government about the future of the four US military bases in Greece.

The Socialists' official position is that the bases will definitely go at the end of 1988, when the existing five-year agreement for their operation, which they signed in 1983, expires.

US hopes that the military installations might remain beyond that date have been encouraged by a distinct pro-US turn in the Socialist foreign policy after last June's general elections and by warnings delivered by Mr Andreas Papandreou, the Prime Minister, to his supporters that removing the bases was a delicate exercise which could not be accomplished overnight.

Mr Michael Armacost, US Undersecretary of State, tried to glean Dr Papandreou's intentions on the bases during a visit to Athens last October. But the Greek side reportedly chose to play their cards close to their chests. Mr Shultz is now expected to try to move the discussions forward.

The Americans are understood to want as much advance warning as possible on the fate of the bases in order to make contingency plans to transfer their activities

WORLD TRADE NEWS

Sharp fall in S. Korea shipbuilding contracts

By Steven B. Butler in Seoul

NEW shipbuilding orders at South Korean yards fell sharply in 1985 totalling just 771,000 gross tons, a 66 per cent plunge from 1984's new orders, and the first time since 1979 that new orders fell under 1m gross tons.

In dollar terms, the figures look worse. The value of new orders fell by 77 per cent in 1985 to reach $522m (£372m).

The fall-off of new orders indicates further serious retrenchment ahead in an industry that last year saw declining profits and a sharp drop in employment.

Some of the yards may face difficulties surviving if they are unable to succeed in their current drive to diversify into non-vessel construction.

● Daewoo Shipbuilding and Heavy Machinery has received its first orders for the New Year—$210m in contracts to build five ships.

The new orders include two oil shuttle tankers worth $80m for the Ugland group of Norway, and for three car carriers worth $130m for Hoegh-Ugland Auto Lines.

● New overseas contracts for South Korean construction companies last year plunged by 23 per cent to $4.69bn, the lowest total of new orders since 1977.

Following a 38 per cent decline in new orders last year, and 22 per cent the year before, the latest figures indicate another serious retrenchment for one of South Korea's foremost foreign exchange earners.

South Korean companies have been hit hard by the slump in business from the Middle East. Despite efforts to diversify into other markets, the Middle East accounted for 91 per cent of last year's new orders.

The country's largest contractor, Hyundai Engineering and Construction, however, has emerged virtually unaffected by the slump.

Export finance cuts

The minimum concessionary export credit rate for credits over five years under which richer countries are to provide finance to intermediate countries is cut to 10.15 per cent from 11.20 per cent, effective January 15. Friday's issue incorrectly stated that the levels would fall to 10.85 per cent from 11.90 per cent.

Ikarus buses win foothold in UK

BY DAVID BUCHAN, EAST EUROPE CORRESPONDENT

IKARUS of Hungary, one of the world's largest coach and bus makers, has established a beachhead in the UK market with an initial $2.5m (£1.7m) contract with Kirkby Central Group of south Yorkshire that also gives the latter the right to sell coaches with Ikarus-made bodies to the rest of the EEC.

Mr Colin Cowdery, Kirkby Central's managing director, said his company was now exploring the EEC Continental sales possibilities, but the initial order for 20 Blue Danube luxury coach bodies this year, and for a somewhat larger number in 1987-88, would be for the UK market.

These will be imported into one of Britain's six freeports, to defer import duty and value added tax (VAT), until mounted on Volvo chassis and finished off in the company's Yorkshire workshops.

Ikarus, which exports about 80 per cent of its yearly output of some 14,000 buses and coaches, already does substantial business in north America, Asia and the Middle East, as well as its dominant share of the Comecon market.

But it is keen to use its low-cost production base to break into the EEC, which has a multiplicity of chassis manufacturers, but few coach and bus makers of comparable scale.

Its interest in the UK appears to be to combine what it sees as immediate sales prospects with a potential springboard into the main EEC market. This could be of greater consequence in the larger bus market.

Ikarus' UK agent, Robertson International, is currently weighing up award of a similar deal with regard to UK and EEC sales of Ikarus bus bodies.

Though the current privatisation of the National Bus Company has thrown the UK bus market into a state of flux, the prospect of selling for Ikarus substantial numbers of bus bodies in the EEC could have considerable countertrade attractions to Western manufacturers wanting to sell their own products to Hungary.

Kirkby Central is competing with bus chassis manufacturers for Ikarus bus co-operation, Mr Cowdery says.

But its prime interest, he claims, is as the UK market leader in luxury coaches, at a time when UK coach-makers are facing considerable competition from the rest of the EEC.

Michael Donne looks at the background to a forthcoming exhibition

Singapore boosts aerospace role

SINGAPORE'S bid to become a major force in the aerospace industry in South East Asia and the Far East will be given a further boost this week when more than 600 international aeronautical companies participate in the third Asian Aerospace exhibition at Changi Airport, from January 15 to 18.

The biennial exhibition, occurring this year against the background of weakening economic activity in South-East Asia, has two main objectives.

The first is a direct attempt by Singapore to promote itself as a base for aerospace and related manufacturing activity, in competition with such countries as Japan and Indonesia which have established aerospace industries.

Although lacking the heavy industrial infrastructure for large-scale aircraft manufacture, Singapore is ideally placed to cope with the smaller elements of aerospace activity such as electronics, avionics, and parts manufacture, and even light aircraft assembly, in addition to the existing extensive maintenance, overhaul and repair facilities the country possesses.

Much of this work is being done in association with Western aerospace manufacturers, but the aim is to expand this activity substantially, and thus add another dimension to Singapore's overall industrial structure.

The exhibition's second objective is to promote Singapore as a central market for aerospace products of all kinds. It is overtaking the biennial Japanese aerospace exhibition which has dominated the Far East aerospace scene but which is declining in international influence as other countries recognise the value of having their own aerospace industries.

Despite recent indications of slacker economic growth throughout South-East Asia, aviation in the region continues to expand.

Factors behind this growth in the past have been the region's expanding economies, the growth in tourism, which is still well below the region's potential, and an increasing awareness throughout the region of the benefits that air transport and related aerospace industrial activity can bring.

While there are political and economic difficulties in some parts of the region, these are not thought likely to impose any serious long-term constraints on the overall development of civil aviation through the rest of this decade.

Statistics of the International Civil Aviation Organisation (the aviation agency of the UN) show that between 1974 to 1984, average annual growth in international air traffic in the Asia and Pacific region, in terms of scheduled passenger-kilometres flown, was 12.6 per cent, with domestic air traffic increasing annually by an average of 9.4 per cent.

In that period, the expansion was the second highest in the world after the Middle East region, where international air traffic rose an average of 13 per cent a year, with domestic air travel gaining 21.3 per cent.

In cargo, the Asia/Pacific improvement was even more marked. Scheduled freight tonne-kilometres flown on international operations increased on average by 17.1 per cent a year, with domestic freight operations gaining 12.9 per cent.

Apart from the need to supply the region's growing airlines with aircraft of all kinds, the region also requires much further development of the commercial aviation infrastructure, from building new airports to the provision of improved air traffic control and air navigation aids.

Substantial outlays of casb and physical and technical effort will be needed to bring large parts of the region up to the standards of North America and Western Europe.

As a market for aviation and aerospace equipment through the next decade, therefore, the Asia/Pacific region as a whole is one of the most promising in the world.

Boeing, in its most recent study of world market prospects, suggests that over the next 10 years airline activity in the region will expand by more than 26 per cent from the 1984 level, making it the second largest area of aviation growth in the world after the US.

Boeing also believes that, out of a total world market for airliners of all kinds worth $135bn (£96.4bn) in that period, the Asia/Pacific share will be about 20 per cent, making it the biggest single market after the US, which will account for about 42.8 per cent.

Singapore's own bid to be an influential factor in this anticipated civil aviation and aerospace expansion is also stimulated by the emerging aerospace power of China.

That country has been showing increasing interest not only in expanding its commercial airline operations both domestically and internationally, reflected in increasing purchases of Western-built airliners of all kinds, but also in the modernisation of its own aerospace manufacturing industry.

This was reflected in the big Aviation Expo in Beijing in December, 1984, with many foreign countries showing their aerospace wares. The recent large Chinese procurement of Western aircraft is widely believed to be the precursor to extensive manufacturing under licence of some of those design, or at best closer eerospace industrial links with the West.

The rise of the commercial aviation and the aerospace industry in South-East Asia and the Pacific Basin region thus cannot be under-estimated. Japan, Indonesia, Singapore and China are all now showing increasing interest in aerospace activity and can be expected to continue to do so, despite current economic difficulties in some parts of that region.

The market promise of the whole area is immense, despite its wide physical diversity and its equally varied political and economic and sociological problems.

The Financial Times is holding its fourth Asian Aerospace conference, on Aviation in South-east Asia and the Pacific Basin Region, in Singapore at the Shangri-La Hotel today and tomorrow. Details from the FT Conference Department, 01-621 1355.

ITC praises Gatt dispute settlement mechanism

By Nancy Dunne in Washington

THE DISPUTE settlement mechanism employed under the General Agreement on Tariffs and Trade (Gatt) has won praise from a surprising source—the US International Trade Commission (ITC).

The US is currently involved in a large number of Gatt disputes, which have been stalled short of a satisfactory resolution. As a result, the Reagan Administration has said it will seek reform of the dispute settlement procedures in the forthcoming round of multilateral trade negotiations.

However, according to a new ITC report, the existing mechanism has been adequate for managing "all but the most contentious international trade disputes, such as those involving agricultural subsidies."

In fact, Gatt looked even better — "both pragmatic and flexible"—when compared with other, more politicised international institutions.

"The dispute resolution process in particular was observed to work well where the issues were narrowly focused or technical," the report said.

Three major criticisms of the procedure were examined: the length of time taken to complete e case; the opportunities for a "defendant" country to use procedural manoeuvres to obstruct the process; and the lack of assurance of compliance with panel findings. While these charges could be substantiated, the problem cases were found to be the exception rather than the rule.

"Establishment and formation of panels usually proceeds smoothly, reliance on consensus decision-making has rarely blocked adoption of panel findings, and some form of action was taken in response to Gatt resolutions in over 70 per cent of completed cases," according to the ITC.

In a review of 84 cases, the commission found that the use of panels has increased substantially in the last decade, with the US being the most frequent complainant. While tariffs were the most common subject of dispute between 1948 and 1974, since then, tariff-related issues were equalled or exceeded in number by complaints against quotas, subsidies and other non-tariff measures.

Cases involving subsidies, particularly agricultural subsidies, proved the most difficult to resolve—due in part to a lack of consensus on interpretation of the related Gat provisions.

Interviewing Gatt officials, the commission concluded that the most difficult trial facing Gatt is that "its members lack the political will to co-operate on trade matters."

Trade between India and Pakistan to double this year

BY JOHN ELLIOTT IN NEW DELHI AND MOHAMMED AFTAB IN ISLAMABAD

TRADE BETWEEN India and Pakistan is to double in the coming year following talks between the two countries' finance ministers aimed at improving the countries fractious and accident-prone relationship.

Pakistan agreed during the talks to allow trade in 42 items currently restricted to public-sector state trading corporations to be opened to the private sector and said it would decide within e month whether to expand this list to perhaps 200 or 300 items.

"The talks were a positive first step," said Mr Vishwanath Pratap Singh, Indian Finance Minister, when he returned to Delhi on Saturday.

Bnt be reflected some frustration among the Indian delegation when be added that the two countries had "only just started the journey: "There bad been "virtual deadlock" before, in the country's economic relations.

The trade talks, which took place in the Pakistan capital of Islamabad at the end of last week, have a wider internetional significance because they are the first of e series of major attempts to reach agreements on specific issues following the New Delhi summit last month between Mr Rajiv Gandhi, Indian Prime Minister, and President Zia ul-Haq of Pakistan.

Over the weekend another initiative was launched when the two countries' Defence Secretaries met in Islamabad to start talks on e peace deal to end two years of armed clashes on the Siachen Glacier in the disputed northern territory of Kashmir near a mountain pass into China.

The two countries' Foreign Secretaries are to discuss e possible general peece treaty this month and if good progress is made on all these initiatives Mr Gandhi is expected to make an historic visit to Pakistan in March or possibly April.

India regards progress on the trade talks as an important litmus test of Pakistan's overall desire to improve relations.

The annual two-way trade between the two countries has totalled less than $50m (£35m) in the past few years. Last year India exported goods worth only $9.6m to Pakistan and imported $23m.

The last bi-lateral trade agreement expired in 1978 and Pakistan has severely restricted imports from India, fearing it would be swamped with cheaper goods by its much larger and more industrially-advanced neighbour.

Pakistan bas been imposing restrictions on trade with India which it does not impose on other countries but, during the talks, it agreed in principle to adopt guidelines of the General Agreement of Tariffs and Trade on treating all countries equally, although his may take some time to implement in practice.

Reuter adds: Iran'e president, Mr Ali Khamenei arrives in Islamabad today for a three-day visit that will signal a warmth in once-cool relations between the two neighbouring Islamic nations.

The visit is the first to Pakistan by an Iranian president since Tehran'e 1979 Islamic Revolution.

Mr Khamenei and Pakistan'e President Zia al-Haq will discuss bilateral ties,

One official said talks would also be held on the regional grouping which Iran, Pakistan and Turkey decided to revive under the new name of the Economic Co-operation Organisation (ECO), aimed et co-ordinating trade and economic development.

World Economic Indicators

UNEMPLOYMENT

		Dec. 85	Nov. 85	Oct. 85	Dec. 84
UK	000's	3,270.0	3,259.0	3,277.0	3,219.0
	%	13.5	13.5	13.5	13.3
		Nov. 85	Oct. 85	Sept. 85	Nov. 84
US	000's	8,140.0	8,291.0	8,274.0	8,142.0
	%	7.0	7.1	7.1	7.1
W. Germany	000's	2,210.7	2,148.8	2,151.6	2,189.2
	%	8.2	8.0	8.0	8.1
France	000's	2,495.1	2,504.9	2,436.2	2,524.9
	%	10.7	10.8	10.5	10.9
Italy	000's	3,078.6	3,023.5	2,938.4	2,812.1
	%	13.5	13.3	12.9	12.3
Netherlands	000's	741.0	743.4	757.6	797.5
	%	13.0	13.1	13.3	14.0
Belgium	000's	541.1	552.8	564.0	617.0
	%	13.1	13.4	13.7	15.0
		Sept. 85	Aug. 85	July 85	Sept. 84
Japan	000's	1,580.0	1,480.0	1,450.0	1,590.0
	%	2.72	2.59	2.56	2.75

SHIPPING REPORT

Tanker rates stay soft

BY ANDREW FISHER, SHIPPING CORRESPONDENT

TANKER RATES remained soft last week, after the increases aheed of the end-year boliday period. Only e marginal increase in demand is forecast for oil-carrying vessels this year.

BP Shipping startled the industry with its news that crewing for its fleet would now be handled by outside agencies, leaving the group with a £50m redundancy bill but saving over £10m e year on crew costs.

BP Shipping, which has cut its fleet sharply in recent years, as have other oil groups, also wrote down the book value of its fleet by some £80m.

Recent rises in freight rates beve been too little and too late to benefit BP Shipping, which now does under half its business with its parent oil concern, opereting instead as a separate shipping company chartering out its ships.

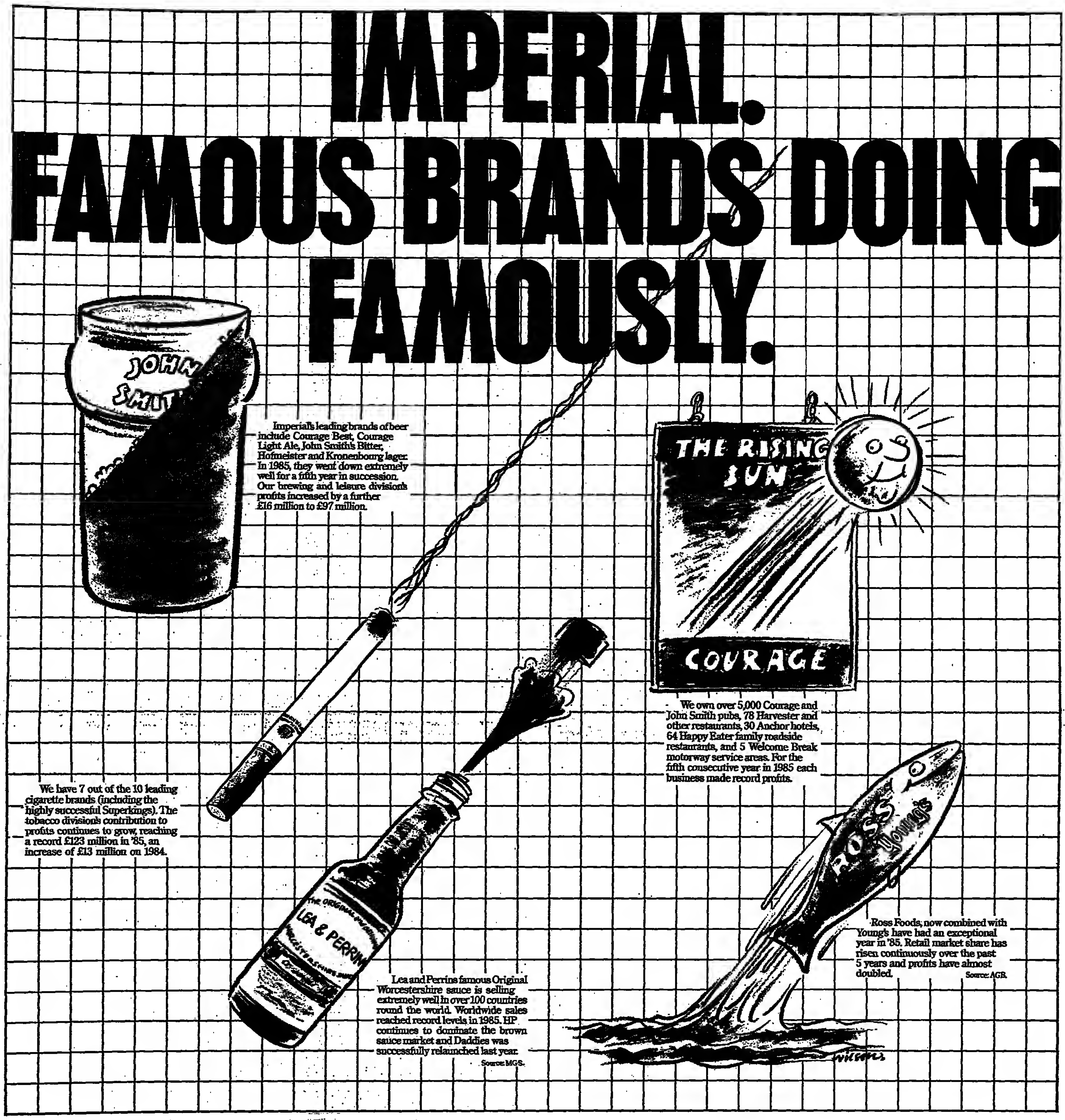
BP said the alternative to its drastic measures was the sale or lay-up of its fleet, which had been losing some £20m a year. It said competition in tankers from independent owners was becoming increasingly fierce.

A forecast by Intertanko, the independent tanker owners' association, said the rise demand in 1986 for crude oil tankers would be only marginal, with a 2 per cent increase for refined product tankers.

It noted there was still an overall surplus of tankers, especially in large sizes. Scrapping was high in 1985 and the net fall in the world fleet of tankers and combination carriers (able to carry oil or dry cargoes) was some 28m deadweight tonnes to 276m dwt.

In dry cargo markets, there was some improvement in rates for grain shipments from the US Gulf to Japan, but Denholm Coates, the London shipbroker, said the basic outlook was poor, with too much tonnage available.

هكذا من الأصل



All these highly successful brands (and many more) come from one highly successful group.

The Imperial Group.

Careful management has guaranteed that Imperial brands have been increasingly profitable over the past 5 years.

Building consumer brands, and marketing them, is a very particular skill.

Imperial has enormous experience in this field. And this has fuelled outstanding profit growth.

Against this record, we believe Hanson Trust's bid for Imperial has no industrial logic. It is unwelcome, unwanted and is grossly inadequate.

Our brands, our shareholders, our employees as well as our customers will get along famously without it.

Famous brands doing famously.

IMPERIAL GROUP

This advertisement is published by Hambros Bank Ltd, on behalf of Imperial Group plc. The directors of The Imperial Group plc, (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. The directors accept responsibility accordingly.

UK NEWS

Epicure savours Channel victory

BY ANDREW FISHER AND IAN ROGER

JAMES SHERWOOD, epicure, businessman and robust contender in the Channel Tunnel fixed-link contest, does not suffer from an excess of modesty. Nor is he over-concerned about his portly figure.

But he sipped only mineral water while journalists were served champagne, as he insisted last week that the battle with the rival schemes of EuroRoute and Channel Tunnel Group (CTG) was all over. His Channel Expressway project would win, he claimed.

That remains to be seen although the UK and French governments want to reach a decision quickly. Mr Nicholas Ridley, UK Transport Secretary, and Mr Jean Auroux, France's Transport Minister, meet in London today to discuss the remaining hurdles.

Mr Sherwood asserts that Expressway is "best for the people." With his penchant for good living – he is built for comfort rather than speed – and investing in schemes, such as the revamped Orient Express, he hardly comes across as a man of the masses.

Luxury hotels, Mayfair bars, ski lodges and up-market guides to life in London have all figured in his business affairs. But the career of Pennsylvania-born and Yale-educated Mr Sherwood, aged 52, has been based on Sea Containers, the company he founded in 1965.

It is the world's largest lessor of containers, container ships, and container cranes, not the most glamorous area of shipping, but not the least profitable. Its success has made Mr Sherwood a rich man.

Although he is confident that Channel Expressway, a £2.55bn project for a combined road and rail link, is now acceptable to the French, last week brought a chilling blast of Gallic criticism.

French officials and businessmen have said it will cost far more than stated, has ventilation problems in the 50 km road tunnel and has little involvement from France. They have made chauvinistic digs at the fact that Mr Sherwood is from the US and that Sea Containers is registered in Bermuda, although it is run from London.

This is unlikely to have caused Mr Sherwood much anxiety. But to satisfy the French, Channel Expressway has enlisted the support of the Crédit du Nord banking group and Screg, a French public works company, now in financial difficulty.

Elf Aquitaine, the French oil company, has said it wants first refusal on the running of petrol stations at the French end of Channel Expressway's tunnels and may take an equity stake.

French suspicion of the Sherwood scheme, which the UK Government has seemed to favour because it offers rail and road links cheaper than EuroRoute, the tunnel and bridge scheme, also stems from Sea Containers' large ferry interests through Sealink UK.

Sea Containers bought Sealink in 1984. Like the rival Townsend Thoresen and other ferry operations, Sealink would clearly suffer from a tunnel, though this would not be completed until well into the 1990s.

Hence the view of opponents that Channel Expressway, a late entrant, should not be taken seriously and is designed to confuse and delay matters. For his part, Mr Sherwood accuses other groups of providing high profit margins for contractors which are also equity partners.

He has said he would prefer no fixed link. But if it comes, he wants to be there. The French hope the UK Government feels no moral obligation to him because it now supports a privately financed fixed link after Sea Containers paid £66m for Sealink, formerly part of state-owned British Rail.

Whether one of the present schemes is finally chosen, some form of co-operation is agreed, or the idea of a fixed link is again dropped, Mr Sherwood has certainly stirred up the cross-Channel discussion.

His assertive fronting of Expressway has given him a higher profile than the leaders of rival schemes although Sir Nigel Broackes, chairman of Trafalgar House and the UK end of EuroRoute, and Sir Nicholas Henderson, chairman of the CTG rail tunnel scheme and a former UK ambassador to France, are also well-known.

The independent Sherwood style has pervaded a gamut of ventures such as the Discriminating Guide to London, which lashed restaurants in the mid-1970s whose meals did not match their prices, the £11m revival of the Orient Express, and Harry's Bar in Mayfair.

He has often stated his attraction to the unique and the excellent although Sealink's efforts to provide a high price and luxury service to the Channel Islands and France last year led to steep losses.

It is ironic, therefore, that one criticism of Channel Expressway is that it looks too cheap and would actually cost twice as much as estimated.

One business attempt that did not come off for Mr Sherwood was his £4m bid for The Times newspaper in 1981. He has said that, if Mr Rupert Murdoch wanted to sell, they could talk.

A more recent development the French are not slow to mention is the hefty tax demand received by SeaCo, the US-based company, also headed by Mr Sherwood, and which owns the Orient Express and other hotel and tourist assets.

Tax authorities in New York claim that SeaCo owes $105m for the years 1976-81. Mr Sherwood has said this is unjustified and that SeaCo will vigorously oppose the claim.

US offshore groups begin merger talks with British rivals

BY DOMINIC LAWSON

US SUPPLIERS to the North Sea offshore oil industry are discussing the possibility of merging part of all their UK subsidiaries with their British rivals as a result of pressure from the Department of Energy.

These talks are being closely watched in Washington by the US Government after complaints by some US concerns that the Department of Energy is pursuing a protectionist policy.

The department has become increasingly concerned because the majority of contracts for the design of North Sea platforms go to US-owned companies. Design work is the most exportable aspect of offshore industry, and of the greatest strategic importance.

The Government is believed to have told the successful US companies that they should merge their businesses with UK companies, giving the UK partner at least a 51 per cent stake in any venture.

The implied threat is that otherwise the Government will use its influence to deny the US companies North Sea orders. Last year the Department of Energy pressured the Shell/Esso North Sea consortium to give a big platform design order to a UK company, rather than to Bechtel of the US.

It is likely that Bechtel is one of the companies now holding talks about bringing UK investment into its North Sea activities.

Another appears to be the UK subsidiary of Brown & Root, one of the world's largest engineering and construction companies. Mr Dick Morris, chairman of Brown & Root (UK), said the company was "actively seeking the right organisation to meet the Government's requirements regarding engineering contractors doing conceptual and technologically innovative offshore work."

Mr Morris said that "stock market rules" prevented any firmer statement, which suggests that the group has been holding merger talks with a UK-quoted company.

In July the Government agreed to remove controversial "Buy British" clauses from future North Sea oil licensing regulations after a threat from the European Commission to take the UK to court for infringing the Treaty of Rome.

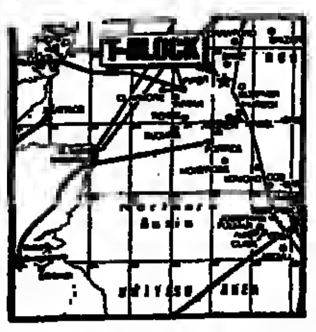
Agip faces Lasmo North Sea challenge

By Our Energy Staff

LASMO, the leading UK oil company, is contesting the right of Agip, the Italian state oil company, to take charge of the development of T-Block, the largest undeveloped oil accumulation in the North Sea.

The UK company is insisting that it should become the T-Block operator, with a plan to get oil flowing from the 300m-barrel block by 1990.

The present operator is Phillips Petroleum of the US. Phillips has, however, agreed to sell its 35 per cent stake to Agip and to Century



Power & Light of the UK. Agip has bid more than $150m to buy a 29 per cent stake, which would bring its total interest in the block up to 47 per cent.

Agip'e bid is conditional on taking over Phillips' role as operator and is part of the Italian group's new strategy to base more of its assets in politically stable parts of the world. Agip has not previously operated in the North Sea.

If Lasmo were to succeed in its drive to become operator of the £1bn development, it is possible that Agip's bid would lapse, delaying the development of T-Block and the $2bn debt-reduction programme of Phillips.

The other partners in the T-Block group, Petrofina of Belgium and Century, now seem to regard Agip as the natural operator, not just because it has by far the biggest stake but also because it has worldwide experience of developing offshore oilfields.

A new operator would need the unanimous agreement of all the partners, and Lasmo is digging in its heels. The UK oil company, while having only an 8.5 per cent stake in the block, is believed to be arguing that it has a higher proportion of its assets in T-Block than the other partners.

Lasmo has detailed representations to the Department of Energy, setting out its development plan. The department is not taking sides in the dispute, which it wants to see resolved as quickly as possible.

Since the discovery of oil in T-Block 10 years ago, more than £100m has been spent on 17 wells, establishing the existence of four separate oilfields – Tiffany, Toni, Thelma and South East Thelma.

Development of the area has been delayed by about a year as a result of the Phillips' decision to sell out and the subsequent dispute, according to one of the partners.

Lasmo has never had sole charge of the development work of an offshore field.

Rail union deal sought for private engines

ARRIVAL is expected in Britain next week of four US-built diesel locomotives which will be the first privately owned traction units to operate regularly on British Rail.

The locomotives, each costing about £1m, have been built by General Motors for Foster Yeoman, the West Country aggregate supply company, to haul heavy trainloads of stone presently each requiring two of BR's most powerful diesels.

BR, which already encourages its freight customers to own their own wagons, has given enthusiastic approval to the Foster Yeoman initiative. But the manual railway workers' unions have yet to reach agreement to operate the locomotives.

The unions' concern is not so much the precedent of privately owned engines, but the fact that the four in question have been built in the US and could lead to BR's own locomotive orders going abroad.

If no operating agreement is reached within the next few days, the four locomotives could be blacked by members of the National Union of Railwaymen (NUR) and the train drivers' union Aslef. General Motors said the ship carrying the engines was due to dock at Southampton next Monday.

□ NATIONAL BUS Company (NBC) inteds to advertise its subsidiaries for sale to potential outside buyers as part of the privatisation process, though its own managers will have preference.

A number of NBC managers have stated clearly that they are keen to buy their companies. Others are less eager at this stage. They will have to compete with third parties but will have the chance to match any outside bids.

While accepting privatisation, NBC is unhappy about the method insisted on by Mr Nicholas Ridley, Transport Secretary. The company wanted to mount a joint management and employee buy-out along the lines of the National Freight Consortium.

□ MR RUPERT MURDOCH'S News International plan to start printing from its new plant in Wapping, east London next week without agreement with traditional print unions.

The announcement, in the Sunday Times, came on the eve of strike ballots due to be held across News International titles by the production unions.

The company plans to print a supplement of the Sunday Times at Wapping next weekend.

□ LEADERS of the South Wales area of the National Union of Mineworkers are to plan a campaign against the breakaway Union of Democratic Mineworkers in the next few weeks.

□ FRESH legal moves to challenge the EEC ban on the use of artificially implanted hormones in meat production are being considered by the Government. Mr Michael Jopling, the Agriculture Minister, is understood to be studying legal submissions, and Britain may contest the decision in the European Court.

□ AN APPEAL to the Government to increase its support of academic science has been launched by a group of British scientists called Save British Science.

□ REED INTERNATIONAL, the paper, packaging, publishing, building products and paint company, is to consider launching free daily newspapers in several UK cities, possibly starting early next year.

□ WALKER WINGSAIL SYSTEMS has sold its first computer-controlled sail for use on a modern cargo ship for £100,000, just over a year after the managing director'e wife went on hunger strike to draw attention to the company'a need for funds.

NOTICE

Texaco Capital Inc.'s offering of $250,000,000 10% Guaranteed Notes Due 1990 has been broadened to include the option for Goldman Sachs International Corp. to make private sales of such Notes in registered form to a limited number of sophisticated United States institutional investors and to branches of United States banks located outside the United States. Under a revised Fiscal Agency Agreement respecting the Notes, definitive Notes in bearer form may, at the holder's option, be exchanged for Registered Notes. Registered Notes, however, may not be exchanged for Bearer Notes. Except for the right to exchange Bearer Notes for Registered Notes, the rights of holders of Bearer Notes shall remain the same in all respects.

Texaco Inc. has guaranteed the debt securities of its subsidiary Texaco Capital Inc.

On December 10, 1985 a Texas state court entered judgment for Pennzoil Co., against Texaco Inc., parent corporation of Texaco Capital Inc., in the amount of $11,120,976,110.83 with interest running from the date of judgment. Texaco Inc. believes the judgment of liability to be unjustified and the damages awarded to be grossly excessive. Texaco Inc. is exploring settlement with Pennzoil Co. While these discussions are proceeding, Texaco Inc. is pursuing all rights of appeal.

Documents fully disclosing the Pennzoil Co. litigation are among those reports which are filed by Texaco Inc. with the United States Securities and Exchange Commission and which Texaco Inc. will make available for inspection at the main office of Chase Manhattan Bank Luxembourg S.A. in Luxembourg during the term of the Notes.

January 13, 1986

UK NEWS

Borrowing costs may rise further, say brokers

By Philip Stephens, Economics Correspondent

BRITAIN'S FINANCIAL markets face an uncertain few weeks with the possibility of a further rise in interest rates to defend the pound if the world oil price drops, according to a series of reports from City of London brokers today.

The damaging impact on sterling resulting from a fall in the oil price to below $20 a barrel would also rule out the prospect of tax cuts in the budget, the brokers say.

The reports, however, are divided on the most likely developments in the oil market.

Broker Phillips & Drew says a price collapse "would require sharply higher interest rates and the forfeit of tax cuts in order to restore confidence in sterling" but sees a smaller decline as more plausible.

In those circumstances Mr Nigel Lawson, the Chancellor of the Exchequer, would be unlikely to forgo income tax cuts in order to offset lower revenues from North Sea oil. Instead he would probably combine a firm sterling policy with a more accomodating fiscal stance and announce around £2bn worth of tax cuts.

James Capel, another leading City broker, says that over the short run, spot oil prices are likely to fall to around $23 a barrel, with a distinct possibility of forward prices dipping below $20.

It gives a warning of a large glut in the oil market with a possibly dramatic effect on the price, pushing it below $20 a barrel. The result could be borrowing costs as high as 14 per cent, Rowe & Pitman says.

James Capel adds that oil price uncertainty would force the authorities to continue their tough line on interest rates.

A key hurdle for the Government, it says, will be a potential slide in the oil price this month as the next meeting of the Organisation of Petroleum Exporting Countries (Opec) approaches.

The broker adds that it expects a semblance of stability to return after the February Opec meeting and a "suitably prudent" March budget, paving the way for base rates to fall to about 10.5 per cent from the present 12.5 per cent.

Lionel Barber looks at tomorrow's vote on the Sikorsky/Fiat rescue plan

All to play for at Westland

THE WESTLAND affair, which has convulsed the Cabinet, Whitehall and the City of London for four long weeks, moves to a crucial stage with the planned extraordinary general meeting of shareholders to vote on the Sikorsky/Fiat rescue plan favoured by the Westland board.

Last week, before the surprise emergence of Mr Alan Bristow, the helicopter millionaire, as a 12 per cent shareholder, the meeting appeared to have a better-than-evens chance of achieving the quick, clear-cut solution to Westland's financial problems so desperately sought by the board.

Tomorrow's meeting was originally called so that Westland shareholders could vote on three resolutions aimed at resolving the uncertainty created by two rival rescue plans put forward by Sikorsky/Fiat and the four-nation European aerospace consortium.

The first resolution, calling for an increase in the company's borrowing powers, can safely be described as straightforward. Westland is in potential default under two of its debenture stock trust deeds; failure to pass this so-called ordinary resolution, which requires a 50 per cent majority vote, would result in Westland being unable to borrow further money and would send the company into receivership in a matter of days.

For all the animosity and controversy surrounding the Westland affair and its main players, there is no question of the ordinary resolution failing. By contrast, the fate of the other two resolutions which call for approval of the Sikorsky/Fiat recapitalisation plan is far more uncertain.

These so-called special resolutions, because they include proposals to convert debt owed to Westland's banks into preference capital, require a 75 per cent majority vote in favour. Over the weekend, it was rapidly becoming clear that the Westland board has a near impossible task in securing such a majority.

The reason lies in two hostile shareholders' stakes amounting to at least 17 per cent held by Mr Bristow and by United Scientific Holdings, the UK defence contractor. These, coupled with the 1 per cent shareholding held by GEC, a member of the European consortium, and a small stake held by Lloyds Merchant Bank fund managers, mean that advocates of the European rescue plan can almost certainly block approval of the Sikorsky/Fiat offer.

Failure to approve the two special resolutions would not, as some have suggested, send Westland into receivership. But it would create considerable uncertainty about the company's future, something deeply worrying to the board and to institutional shareholders, owning and looking after on behalf of small shareholders, up to 80 per cent of Westland.

The institutions, after all, were the very people who were instrumental last year in trying to rescue the company, first by inspiring the £80m consortium bid by Mr Bristow, which he later abruptly dropped, and second by encouraging the Bank of England to appoint Sir John Cuckney as chairman and company doctor.

Faced with this uncertainty and the likelihood of the Sikorsky/Fiat rescue plan failing, Sir John and his merchant bank advisers have several escape routes before them:

- Adjourn tomorrow's meeting once the first, crucial resolution, is passed;
- Call on British Aerospace, leading the European consortium, to launch a full-scale takeover bid for Westland;
- Call on Sikorsky or its parent, United Technologies, the US conglomerate, to launch a takeover bid;
- Enter into discussions with the European consortium and put the European offer to another meeting in at least 21 days;
- Try to persuade Mr Bristow and United Scientific to sell their hostile stakes to some other friendly party and then put the same Sikorsky/Fiat plan to another shareholder meeting;
- Draw up a new Sikorsky/Fiat recapitalisation plan which would require only an ordinary resolution to be put to shareholders and, therefore, only a 50 per cent majority support.

All these options, other than the first one proposing adjournment, contain drawbacks. For example, British Aerospace, although nominally leading the European consortium, has consistently ruled out launching a bid, even when pressed by Sir John last week at a meeting with BAe's chairman and managing director, Sir Austin Pearce and Sir Raymond Lygo respectively. Equally, City institutions which want to see the Westland affair settled have drawn a frustrating blank.

A Sikorsky bid is possible, but extremely doubtful in the light of anti-trust provisions in the US. Quite apart from the furore it would cause, in the light of the political controversy created by its original appearance as Westland's favoured partner, such a bid would almost certainly be referred to the Monopolies Commission. As one Westland executive last week put it: "Sikorsky is already irritated by the amount of management time taken up on what is a pimple compared to the rest of its business."

The Westland board has also resolutely defended the Sikorsky/Fiat plan to the exclusion of the European offer, on the grounds of industrial logic which has been overwhelmingly accepted by its workforce. The question, therefore, is how the European camp can force its own case and succeed.

Here, Mr Bristow, who has maintained an active interest in Westland since last summer, may have a crucial part. If the helicopter millionaire can persuade the Europeans to take him on board and if the Europeans can swing the institutions round to their cause, following an adjournment of tomorrow's meeting, then they may yet emerge with a bloody victory.

On the other hand, if the Westland board can persuade Sikorsky to come up with a revised rescue plan, the 50 per cent majority approval could just be achievable. As one of Westland's advisers said last night: "Everything is left to play for."

Austin Rover's deficit rises to £960.5m

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

AUSTIN Rover Group (ARG), the car subsidiary of state-owned BL, ended 1984 with a net loss of £22.5m which raised its accumulated deficit to £960.5m.

The company's true financial position – not shown in the BL report – is laid bare in accounts which have now been filed.

They reveal that Mr Harold Musgrove, ARG chairman, received a 7.5 per cent increase in earnings in 1984 compared with the previous year. His pay went up to £71,389.

They also show that Mr Geoff Armstrong, 38, who was for five years employee relations director for BL Cars, was paid £124,000 compensation for loss of office by ARG when he left to take up a directorship with the Metal Box company at the end of 1984.

ARG's shopfloor employees settled in the autumn of 1984 for a pay rise of 10.2 per cent over two years.

A dispute that preceded the settlement and other industrial unrest during the year hit car production and halted the slow return to financial health which ARG previously appeared to be showing. The company's production of cars and light vans in 1984 fell by 66,000 to 390,130.

The accounts show that ARG is mainly financed by an interest-free loan by the parent group, repayable at one month's notice, which at the end of 1984 had reached £1.236bn.

ARG's net loss of £22.5m for 1984 compares with one of £7.5m the previous year. The loss rose despite a substantial increase in tax recovered which went up from £8.9m to £20.6m. ARG has losses totalling about £1,094bn carried forward for tax purposes which are available to offset tax payable on future UK profits.

- Freight Rover, BL's medium and heavy van subsidiary, produced a record 18,879 vehicles last year, up from 16,843 in 1984.

The Sherpa van company, established as a separate organisation within BL's commercial vehicles division in 1981, also recorded its highest-ever UK van market share last year, 14 per cent compared with 12.6 per cent in 1984.

The improvement in both production and domestic market share follows the introduction of the wide-bodied Sherpa 300-series models at the end of 1983.

BUILDING

£72m Vauxhall paint plant at Luton

TAYLOR WOODROW MANAGEMENT CONTRACTING has commenced two further projects worth around £36m and £11m respectively for Vauxhall Motors, to add to the almost completed building work worth £26.4m. All three contracts relate to a new paint plant at the Luton works. The existing contract, now nearing completion, is for construction of the shell of the four-level building, which measures 220 metres long by 110 metres wide, and contains over 10,000 tonnes of structural steelwork.

TWMC will be responsible for the on-site monitoring and co-ordination of sub-contractors supplying the £36m process plant installation. This equipment enables the basic steel shell of the car to be degreased, cleaned and painted in a continuous flow operation. Ducting, water and power supplies and other environmental services will be procured by TWMC and installed under the £11m contract. This will produce one of the most advanced paint spraying plants in Europe, when it is linked with the main assembly lined uring the summer holiday shut-down in August.

New utilities facility for ICI division

As part of ICI agricultural division's £60m investment plan associated with its fertilizer production operation at Severnside, near Bristol, WIMPEY ENGINEERING has been awarded a £12m contract for the provision of engineering design, procurement and construction support services for a new utilities plant. The project comprises all the associated process plant services and tie-ins required to integrate the two new ammonia plants into the existing site. A key feature of the design will be the contribution the utilities plant makes to the high level of operating efficiency of the ammonia complex. The major design effort is scheduled to be completed within 12 months to meet the planned start-up date in mid-1986.

£6m Tesco superstore project for Romford

Contracts worth together more than £7m for a new Tesco superstore in Romford, and a luxury homes development on the Thames riverfront at Limehouse, have been awarded to KYLE STEWART. At Romco Corner, Romford, work is to start soon on a 48-week programme for provision of a 65,000 sq ft, 30-check-out superstore under a design-and-construct contract. The £6m project includes a steel-framed and brick-clad store, parking for 600 vehicles, and landscaping. In Narrow Street, Limehouse, work has started on a £1.25m contract to construct 26 luxury one, two and three-bedroom apartments in three-storey blocks around a courtyard opening onto the Thames riverfront. The project, for Melbourne Court Estates, is due for completion in early 1987.

Midlands hospitals

The Trent Regional Health Authority has given a £6.3m contract to HENRY BOOT (NORTHERN) to build a 168-bed maternity unit at the Chesterfield and North Derbyshire Royal Hospital. The unit will enable the old Scarsdale Hospital to be closed. A second contract, worth £3.4m, has gone to RODILL AND SON to build Coalville's first hospital. It will have 96 beds, and 40 day places, mostly for geriatric or mentally ill patients.

TAYLOR WOODROW CONSTRUCTION (SCOTLAND) of Glasgow, has received a contract worth £2.45m from Heriot Watt University for the erection of accommodation at Riccarton Campus, Currie, Midlothian. The work will comprise erection of a three-storey building with a gross floor area of 5,600 sq metres, containing 231 bedrooms, communal lounges, kitchen, dining areas, storages and toilets, construction is of loadbearing brickwork, concrete slabs, timber roof with concrete tiles and facing brickwork to external elevations. Also included are all mechanical and electrical services. Work has started with completion scheduled for May 1987.

Housing work in North West

A range of building contracts worth a total of more than £17m have been secured by Warrington-based CRUDEN CONSTRUCTION. Housing work provides £10m of the total, with contracts involving the design and construction of over 450 new dwellings in the inner area of Merseyside and Greater Manchester.

In Liverpool, contracts total almost £5.5m on schemes providing over 200 new homes. They include the start of the "Cathedral Mews" project, a £900,000 17-unit phase of the £15m Cathedral Park development which will ultimately provide 200 new homes; a £1.7m "design and build" contract at Brunswick Gardens, for the City of Liverpool; a 17-unit project in Liverpool 25, for Venture Housing Association, and a £1.2m contract to build 48 dwellings at Lambeth Road, for Liverpool City.

At Sefton, on Merseyside, Cruden has won orders worth £3m. In Park Road, Bootle, 51 units are being built under a "traditional" contract for Sefton Borough Council, while at Seaforth, two "design and build" projects amount to work worth £1.5m and will provide 69 new homes, also for Sefton MBC. At Netherton, 150 properties are being developed with the Nationwide Housing Trust under a £3.5m "design and build" contract.

Other north west residential contracts include a £1.5m sheltered scheme at Mill Brow, Widnes, for Hanover Housing Association; a 28-unit sheltered scheme at Bruche, Warrington, for Warrington Housing Association, and a £620,000 project to build 32 "design and build" homes in Rochdale.

Refurbishment and modernisation contracts, which account for nearly £6m of the workload, include a £1.3m three-phase rehabilitation project at Smithdown Lane, for the City of Liverpool; a renovation project at Chester Railway Station for August Buildings, and three external enveloping contracts: two worth £620,000 at Altrincham and Old Trafford, for Trafford Borough Council; and a £1.4m enveloping contract in Birkenhead for Wirral Borough Council.

FINANCIAL TIMES

PUBLISHED IN LONDON • FRANKFURT • NEW YORK

[illegible]

INTERNATIONAL & BRITISH EDITORIAL, ADVERTISEMENT & CIRCULATION OFFICES

[illegible]

All advertising is subject to the publisher's current terms and conditions, copies of which are available on request

Architecture

Colin Amery

Mather keeps the faith with Foster and Lasdun

The 1960s seem like halcyon days: governments poured money into education and the names of the new universities —Kent, Lancaster, York—rolled off the tongues of education ministers like some Shakespearian litany. East Anglia was one of the proud names and Denys Lasdun was the architect who designed the first great range of buildings which stands confidently on the flat Norfolk landscape.

There have since been some developments at East Anglia. The most significant addition until recently was the Sainsbury Centre for the Visual Arts, a silver hangar designed by Norman Foster which marked the first break from the concrete spine. Now the architect Rick Mather has in his turn marked a break from Foster's high-tech precedents.

He has designed two buildings which are situated behind the long teaching spine of the Lasdun scheme. The smaller one, circular in plan, is the Climatic Research Unit which acts as a kind of porter's lodge to the larger building.

Designing next to the Lasdun concrete wall is quite a problem. Mather has boldly decided to design relaxed façades that reveal some of the interior functions of the schools in contrast to Lasdun who imposed a regular grid over all the elements of the teaching wall. The materials however make the greatest contrast. Mather uses a white glazed concrete block and runs a cornice in two shades of grey around the top and a series of verticals, also grey, to add some definition. The effect is clear, sharp and distinctive.

Rick Mather is an American-born architect from Oregon who lives and practices in London. He is probably best known for his refurbishing of the interiors of the Architectural Association in London and the Peter Eaton bookshop in Holland Park. He has a distinctive style—a kind of laid-back modernism—and his work reflects what it was like to be trained in the 1960s when architects in England were building the kind of dogmatic modern designs that had been better built end designed in Europe or America in the 1930s. While political confidence in the modern movement was strong, the public and some far-sighted architects were beginning to lose the faith.

Mather has never lost the faith; he has simply thinned it down. His architectural dogmas are of the post-Vatican II variety. Superficially, some of the rules have been relaxed but within modernism remain infallible.

It is this intellectual dilemma that makes his work interesting. Outside the clean, cheerful façades of the East Anglian teaching blocks are initially attractive. Look closer and there is a paucity of detail—a smoothness in the "Spectraglaze" block-work but a rather thin skin-like overall effect. I found the planning of the main building more satisfactory than the façades, although I can see the logic of setting a rather brittle element alongside the concrete giants.

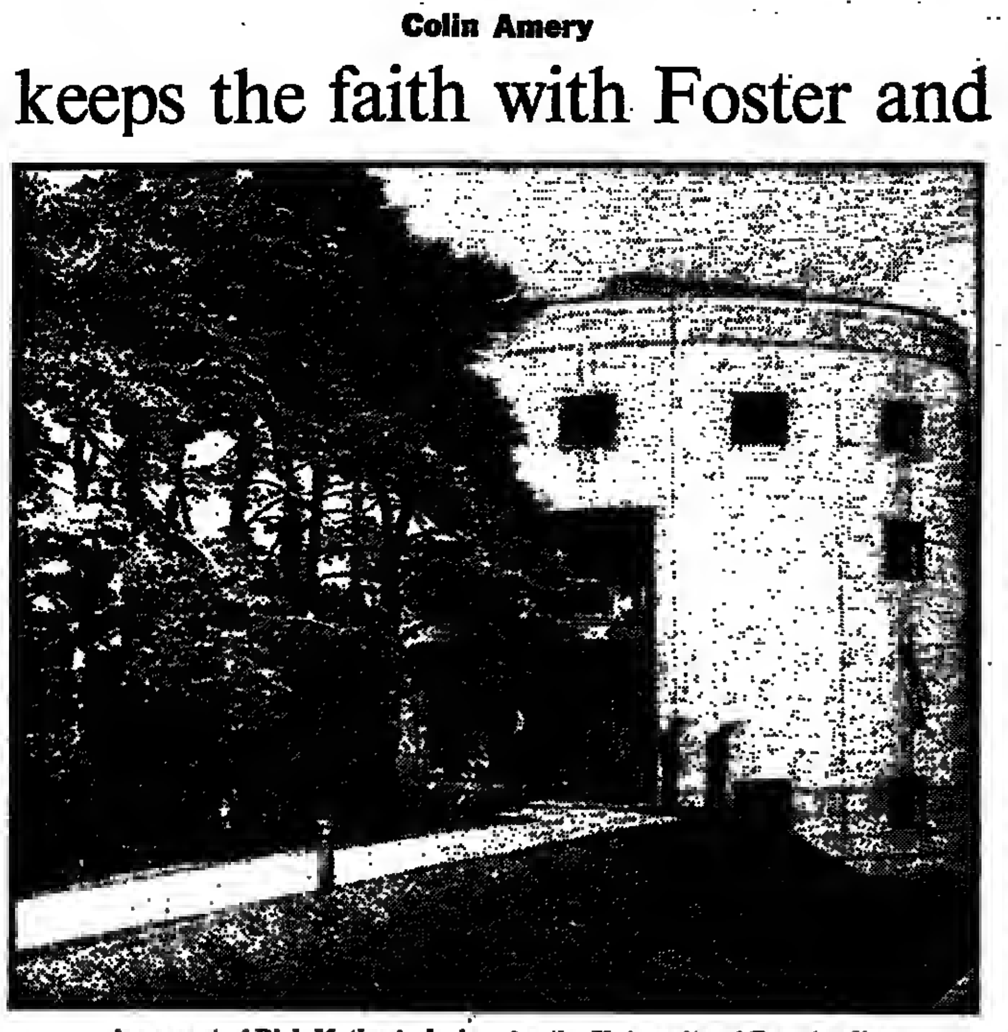
The internal plans allow for some ingenious spaces. Particularly attractive is the high main entrance space with its dramatic staircase and bridge looking over the courtyard garden. Corridors have interesting breaks in them, forming alcoves for students to sit in while waiting for seminars, and on the top floor lightwells are agreeably curved.

The finished interiors are built to University Grants Committee tight standards, resulting in too much concrete blockwork, indifferent furniture and an apparent unavoidable institutional atmosphere. Mather breaks this wherever possible by his larger more public spaces—a series of more elegant adventures that do demonstrate the fact that an architect can enliven the lowest of budgets.

It is the little circular drum of a building occupied by the climate researchers that is a highly ingenious and really quite spicy element. A top-lit central stair is surrounded by a ring of irregularly shaped rooms but the feeling is of an enjoyable *esprit*; it is the sort of plan that would make an agreeable house. Because it is round it inevitably looks like the sort of thing that Mario Botta designs, but his work is sculptural, while Mather's is more two-dimensional.

I would recommend a visit to the East Anglia campus because it offers a telling account of the progress of contemporary architecture: the solidity of Lasdun's conception, the industrial elegance of Foster's Sainsbury Centre, and the accessible face of neo-modernism in Mr Mather's scheme. His work shows a light confidence end after an ingenuity in the plan. His visual language, however, is limited: blockwood patterns, blue paint and a determination to smooth away the third dimension has resulted in a flattened astylar architecture.

Mr Mather has sited his buildings brilliantly and as his gardens grow it will be pleasant to stroll past his façades on a grassy route leading to the fountain. The trees add a dimension that is missing in the architecture—a sense of movement and depth.



An aspect of Rick Mather's design for the University of East Anglia

New York choirs

Andrew Porter

New York is not really a choral city. The New York Philharmonic — unlike the Chicago Symphony, the Cleveland Orchestra, the San Francisco Symphony, and several others — does not maintain its own chorus. There is nothing here like the Cincinnati May Festival — a sort of secular "Three Choirs," founded in 1873, visited by Elgar in 1906 (when he conducted *The Apostles* and *Gerontius*), whose activities provided both Cincinnati's noble Music Hall and its admirable Symphony (where Michael Gielen is now nearing the end of his tenure). But there are several choruses, professional and amateur, large and small, which each season put on their own series of three or four concerts.

Advent and Christmas always brings a flood of *Messiahs* — 20, 30 perhaps more. This year I attended Musica Sacra's. Musica Sacra is a crack professional chorus, 29-strong, directed by Richard Westenburg. This *Messiah*, in Avery Fisher Hall, was accompanied by a basic band of 19 strings, two oboes, and a single bassoon, trumpets and drums where needed, Westenburg at the harpsichord, and a small organ. It was a stunning performance. Handelians have long complained that the immense popularity of the oratorio has eclipsed a fuller knowledge of Handel's range and distorted the common view of him. And rightly. Yet, even in a year of manifold and varied Handel adventures, I found this Musica Sacra *Messiah* the most moving adventure of them all!

Sylvia McNair, after slightly too restrained and careful a start, was a radiant soprano soloist. Michael Chance, who came here with John Eliot Gardiner's chorus in 1984, made what must be considered his "real" American debut, and to the alto part he brought clarity, intelligence, impeccably clear words, and well-informed tone. In "He was despised" he sang the long E-flat on "grief" first time round, with a marvellous *messa di voce*. In the da capo, like a true artist he did something different—struck the word hard and then made a long, pure diminuendo. David Gordon over-decorated "Every valley," and plain places became rough, but he was eloquent in the Passion sequences of Part 2. David Evitts was a strong, agile bass with well-focused coloratura.

The "star" of the evening, however, was the chorus, which achieved grandeur without portentousness, and lightness without frivolity, and was vivid in all it did.

Musically, New York is a city perhaps more Jewish than Christian, and Chanukkah, the Feast of Lights celebrating Judas Maccabaeus's victory over the Syrians, precedes Christmas. At the YMHA, Handel's *Judas Maccabaeus* was given a spirited Channukah performance by the Y Chorale and the Y Chamber Symphony, conducted by Gerard Schwartz. This piece d'occasion—Handel wrote it to mark Cumberland's victory over the Young Pretender; Germans claimed it as Handel's tribute to German military genius (with, after 1933, a rewritten libretto)—has pleased the public more than it has commentators.

The mourning choruses at the start are magnificent. "Ah, wretched Israel" is eloquent and it was beautifully sung by Benita Valente. Rockwell Blake's Judas was fluent but unappealing in timbre. Jan Opalach's Simon was polished and vigorous. Schwarz's rhythms were sometimes alert but sometimes a bit ploddy, and he left clumsy gaps between numbers — even between recitatives and the ensuant arias or ensembles. The Y Chorale, 30-strong, trained by Amy Kaiser, was first rate: the divisions in "Sing unto God" were positively startling in their distinctness and brilliance. I asked Miss Kaiser how she had achieved it. "Told them all to sing like Marilyn Horne" was her answer.

The New Amsterdam Singers, 60-strong, conducted by Clara Longstreth, gave a pleasing concert of "Heinrich Schütz's greatest hits" — from an Opus 1 madrigal to the German Magnificat of his "Swansong," 60 years later. A *coro favorito* of 19 did the more intimate compositions. This was in the church of St Ignatius, an Upper West-side Anglican church (soup kitchen in the crypt) where the propers of the Mass are chanted in Latin. It was an enjoyable concert, with well-toned and full-toned singing, but the texts — Italian, German and Latin — were declaimed with insufficient vividness.

One of New York's two finest choruses, Richard Taruskin's Cappella Nova, is temporarily in abeyance, while Taruskin finishes a book on Stravinsky. And I miss them, for, in carefully planned programmes, they explored early repertory with a delicacy, suppleness, and urgency that brought the pages of music history—Ockeghem, Obrecht, Isaac—to glowing life. The other, Alexander Blachly's Pomerium Musices, 14-strong, joined last month with the New York Consort of Viols and the harpsichordist Charles Sherman to give a programme of music from 16th century Naples, in the Fifth Avenue Presbyterian Church. In varying combinations, solo and ensemble, they presented a captivating picture of music in that restless, excitable city — moving through Diego Ortiz, Giovanni de Macque, and Pomponio Nenna to a wonderful close with Gesualdo's "Ave, dulcissima Maria."

Harry Saltzman's Sine Nomine Singers, 30-strong, celebrated Bach's and Handel's tercentenaries by presenting each composer's version of *The Choice of Hercules*—that edifying episode where young Hercules, at a crossroad in his life, cajoled by Pleasure and exhorted by Virtue, chooses the path pointed by the latter. In Bach's version, Pleasure has the loveliest music, as she sings the lullaby aria reused in the Christmas oratorio as "Schlafe, mein Liebster," whereas in Handel's version the loveliest is Hercules's as he inclines toward Pleasure and sings, "Yet can I hear that dulcet lay, As sweet as flows the honey dew" —one of the most tenderly seductive airs that Handel ever wrote. Bach's applauds the hero's decision in a cheerful choral gavotte, but Handel seems almost to regret it, in his severe G-minor chorus.

Both works reveal their composers in unstrenuous vein. They made a happy pairing. Bach's Hercules was presumely a boy, and Handel's may have been Guadagni, Gluck's Orfeo. The countertenor Jeffrey Dooley was clean, pointed, and brave, but only of timbre in the higher reaches. Julianne Baird's Pleasure, in both works, was a delight. She has become the prima donna of New York's early-music scene. Sometimes her timbre gets a shade too glassy for my taste, but her feeling for phrase, timing, and decoration is exquisite. The chorus was alert, and there was wonderful playing by Stephen Hammer, America's prince of Baroque oboists.

As You Like It/Royal Exchange, Manchester

Michael Coveney

We can already mark down 1986 as the year of two outstanding Rosalinds. Juliet Stevenson's at the Barbican is now complemented by Janet McTeer's at the Royal Exchange in Manchester. While McTeer may not undergo the sexual and psychological upheavals indicated by Stevenson, she is certainly her match in vitality, intelligence and that particular talent of Rosalind for exuberant and witty improvisation.

Nicholas Hytner's irresistible production, too, is brimful of vim and vigour. As we now expect of this gifted young director, it is superbly organised in this difficult but ever exciting Exchange arena, a show worthy of its late moving spirit Michael Elliott (who — auspicious precedent — directed Vanessa Redgrave's 1961 Rosalind).

The usurping court is decked out in non-committal buttoned-up grey tunics. The banished Duke and chums are huddled in Arden in patchwork overcoats that immediately imply Arctic conditions; around their glowing camp fire they extend hospitality and bowls of simmering, fragrant stew to Orlando and old Adam, launching into Jeremy Sams's robust and lusty musical settings like an Outward Bound choral group —Duke Senior and the Foresters.

Arden is wintry but preferable to the pigsty conditions to which Orlando has been consigned by Duke Frederick's stern court—a sunken pit of grey gunge which serves as the wrestling arena and is finally covered in a lovely floor tapestry of bunting emblems. Animals bray continuously in the background. Touchstone's first assault on Audrey (Victoria Hasted) is brilliantly punctuated by the latter's ceaseless crossing of the stage with buckets to milk her goats.

The second half opens with the over-used device of removing the snow sheets and the magical descent from the Exchange roof of a series of forest mobiles, beaded green streamers through which are sighted the animated rustic couplings. Miss McTeer fingering the decorations as if they were her own hair. As Ganymede, she is now sporting ambiguous white culottes and bolero (as is her foil and soulmate Celia, superbly played by Suzanne Borden). Is this underwear, or is it the latest male spring fashion? The design of Di Seymour, ingenious and spirited in the main, is reprehensible only in the cutting of some of these costumes.

Whereas Miss Stevenson abandons Celia for Orlando, Miss McTeer retains the differing affections of both. And she has a superior Orlando to the RSC's in Duncan Bell, a truly promising young actor who resembles a young Ronald Pickup. The RSC's Orlando has no way of coping with Rosaling/Ganymede's descent on him; Mr Bell is chuffed and enlivened by the conquest, lying blissfully pinioned to the floor while Miss McTeer delivers her epilogue in a lasciviously semi-recumbent posture.

The RSC double up the two courts among the actors. Mr Hytner's doubling is less striking but perhaps more skilful. David Howey's ramrod Fredick unbends effortlessly as a benign and wistfully mischievous Corin; Denis Carey is the sympathetic old Adam and the conciliatory voice of Hymen at the revels; Stuart Richman is a sneering pragmatic Le Beau, one of the best I've seen, and unrecognisably transformed as the beamingly accommodating good Duke. Much thought and care has gone into all this. It works, and it shows, and it filled me with as much pleasure as admiration.

Other knockout performances come from Raad Rawi as Jacques (although he will have to cede the palm to Alan Rickman at the Barbican), less malevolent than mildly mocking, and from Richard McCabe who refuses, boisterously, to apologise for Touchstone's lines and shares his cheerful philosophising with selected members of the audience. Mr McCabe is fresh and ingratiating, sporting a series of punkish garbs and furbelows with as much glee as good humour.

Finally, though, the spirit of ease and physical invention is embodied in Miss McTeer who can embrace an audience in her holiday humour and spread her lengthy limbs along the mossy mounds of Arden like a free form dancer at the height of confidence. Once the slightest tendency to jump too early at several textual hurdles has been eliminated, this will be a performance not to be missed. Far along with all her considerable technical attributes already widely noticed, Miss McTeer reveals a tenderness that might take even her greatest fans, myself inclnded, by surprise.

Janet McTeer, Raad Rawi and Suzanne Burden

Mike Arron

Giulio Caesare/Zurich

Andrew Clark

Mezzo-soprano, baritone or counter-tenor? The question applies to *Giulio Cesare*, but it is symptomatic of the wider debate about Handelian style, about instrumentation, ornamentation and voice-casting, that the tercentenary celebrations have fanned. One supposes that the greater choice we now have would lead to immediately recognisable personal preferences and prejudices—but the Zurich production of Handel's most popular opera proves it is foolish to formulate too many preconceptions.

Having been impressed by the Mackerras-Copley production when it visited Geneva in 1983 (it was sung in Italian with Tatiana Troyanos in the title role) and having refreshed those impressions by listening to the EMI recording of Janet Baker and reading of the latest ENO revival, I expected to find any alternative very much in their shadow. Not so: Nikolaus Harnoncourt's choice of a baritone Caesar and a bass Tolomeo is vindicated in practice by the singers he has chosen—the kind of suit-the-role-to-the-singer approach that Handel himself must have favoured.

Harnoncourt, of course, is following German tradition since Oskar Hagen in choosing a baritone for the title role, but he could scarcely have found better than Thomas Hampson, an American of whom we shall no doubt be hearing much more in future. The gain is to be found in this singer's handsome tone and appearance, his embodiment of martial and romantic strength, and his overall stylishness. The penalty is that the hunting aria does not sound so noble, the appoggiaturas do tend towards muddiness in a lower voice, and Hampson's bottom register is not sufficiently resonant.

As in the ENO production, it is the conductor who puts the strongest stamp on production style. Harnoncourt uses modern instruments but makes the strings follow baroque performing practice as far as possible. He tailors continuo instruments to character and situation—not just cello and harpsichord, but also recorders, lutes and harp. The one inapposite sound was the chamber organ, especially in Cleopatra's "Se pietà." The orchestra is on the same level as the stalls: Harnoncourt always ensures that the music comes first. What da capos he includes are barely ornamented—this is hardly a display evening—and the performance is shorter than the Mackerras version, with one less aria for Cleopatra, for example (the appeal to Venus is cut). I find Harnoncourt's leaner, lighter approach, together with his rhythmical accents and short-breathed phrasing, marginally preferable.

Harnoncourt has been remarkably loyal to Rachel Yakar, but she is a disappointing Cleopatra; she does not have the lightness or prettiness for the role, and her faulty intonation is upsetting. Stafford Dean brought the right kind of waspishness to Tolomeo, incisively articulated. If you know and like Anne Gjevang's large and highly individual contralto voice, you would like her Cornelia, but it takes getting used to. Susanne Mentzer as Sextus is the perfect Handelian singer—supple, even, tender, with a superb *mezza voce* and an ability to convey nobility and sadness.

With the exception of the ridiculous rectangular cut-out of baroque musicians in the seduction scene, Federik Mirdita succeeded in his attempt to strike a balance in the production between the present, the baroque and the Egyptian background. His direction of principals pointed up character and respected the music. The production breathed artistic unity. Hans Hoffer's decor made much of a triangular pyramid motif, and the boxing of the stage with flexible side-panels, together with elegant costumes by Gera Graf, gave a coherent flow to the proceedings.

Arts Guide

Jan 10–16

Music

WEST GERMANY

Frankfurt, Alte Oper: New York Orpheus Chamber Orchestra with Carol Dawn Reinhart, trumpet. Rossini, Haydn, Schubert and Schoenberg (Thur).

Berlin, Philharmonie: Berlin Philharmonic Orchestra, conducted by Bernhard Haitink. Brahms, Haydn and Bartok (Wed, Thur).

NETHERLANDS

The Hague, Congresgebouw. Netherlands Chamber Orchestra conducted by Lev Markiz, with soloists. Janacek, Shostakovich, Smirnoff, Tchaikovsky (Mon). (548000).

Amsterdam, Concertgebouw. Emmanuel Krivine conducting the Netherlands Philharmonic, with Stephen Bishop-Kovacevich, piano. Mozart, Mussorgsky/Ravel (Mon, Tue). Recital Hall: Raphael Quartet with Vovka Ashkenazy, piano. Mozart (Mon); Elly Ameling, soprano, accompanied by Rudolf Jansen. Fauré, Wolf (Tue); Lunchtime recital by Roeland Duijne, cello, and Marius van Paassen, piano (Wed); Baroque piano works performed by Glen Wilson. Eckhardt, Duphly, Schubert, Balbastre, Mozart (Wed); The Blaue Reiter ensemble with Calron McFadden, soprano, and Mildred Aikems, contralto. Zagwijn, Smit, Verhaar, Van Gilse (Thur). (718345).

Utrecht, Muziekcentrum Vredenburg. Traditional music and song from India (Tue); Anton Kersjes conducting the Netherlands Student Orchestra, with Yvonne Schiffelers, mezzo. Meijering, Chausson, Mussorgsky/Ravel (Wed). Recital Hall: Electronic concert (Tue); Poems by *Louis Aragon* sung by Marc Ogeret (Wed); The Orlando Quartet. Haydn (Thur). (314544).

Amsterdam, Meervaart. Piano recital by Karin Lechner (Wed). (107393).

LONDON

Royal Philharmonic Orchestra conducted by Sir Charles Groves with Philip Fowke, piano. Sibelius, Rachmaninov and Dvořák. Barbican Hall (Mon). (638 8891).

Trio Atalanta: Shostakovich, Rachmaninov, Mendelssohn and Beethoven. Purcell Room (Mon). (928 3191).

Monteverdi Choir and Orchestra conducted by John Eliot Gardiner with Eiddwen Harrhy, soprano. Beethoven's Missa Solemnis. Queen Elizabeth Hall (Tue). (928 3191).

New Composition in the UK with Lysis. Purcell Room (Tue).

Simon Fischer, violin, and Peter Evans, piano. Messiaen, Bach, Fauré and Falla. Purcell Room (Wed).

BBC Symphony Orchestra conducted by David Atherton with John Lill, piano. Tchaikovsky and Rachmaninov. Barbican Hall (Wed).

Peter Frankl, piano, Gyorgy Pauk, violin, and Ralph Kirschbaum, cello. Beethoven. Purcell Room (Thur).

London Symphony Orchestra conducted by Gunther Herbig with Mayumi Fujikawa, violin. Mozart, Beethoven and Schubert. Barbican Hall (Thur).

PARIS

Academy of Saint Martin-in-the-Fields: Vivaldi, Britten, Mozart (Mon 8.30pm), Corelli, Mozart, Elgar, Bach (Tue 8.30pm). Théâtre de la Ville (42742277).

Jose Van Dam recital (Mon). Théâtre de l'Athenée (47426727).

Ensemble Orchestral de Paris: Jean-Pierre Wallez, violin, Pierre Barbizet, piano: Beethoven sonatas. (Mon, Thur). Salle Gaveau (45632030).

Orchestre National de France conducted by Thomas Fulton, Andrei Gavrilov, piano: Fauré, Ravel, Dutilleux (Thur). Salle Pleyel (45610630).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Klaus Tennstedt conducting. Mozart, Beethoven (Tue); Erich Leinsdorf conducting. Weber, Hindemith, Bruckner (Thur). Lincoln Center (8742424).

Waverly Consort (Alice Tully Hall): All-Lassus programme (Thur). Lincoln Center (3621911).

Kaufmann Hall: Chamber Music group conducted by Jaime Laredo. Beethoven, Moszkowski Berg (Tue, Wed). 1395 Lexington Av. (8318803).

WASHINGTON

National Symphony (Concert Hall): Rafael Fruebeck de Burgos conducting. Piston, Bruckner (Tue); Rafael Fruebeck de Burgos conducting, Lambert Orkis piano. Reger, R. Strauss, Stravinsky (Thur). Kennedy Center (2543776).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting, Siegfried Jerusalem, tenor, men of the Chicago Symphony Chorus. All-*Liszt* programme to commemorate the centenary of the composer's death (Thur). (4358122).

Saleroom/Antony Thorncroft

Bargains in Old Masters

A new saleroom season gets under way this week with the main auction houses, Sotheby's and Christie's, having the odd minor sale, and joining in with Phillips, Christie's South Kensington and Bonhams, who hardly stop for Christmas.

Perhaps the most interesting group of auctions is at Sotheby's, Chester, starting tomorrow. It includes items of local appeal, such as a rare Goss model of the Priest's House at Prestbury in Cheshire, produced around 1900 and now estimated at £200-£300, while another local attraction, Tatton Park, in a painting of around 1850, has an upper limit of £3,000.

Bnt the highest price is likely to be paid for "Returning from the fields," a pretty country scene by Harold Harvey, the Newlyn artist who is suddenly recording high prices. This fairly small painting carries a modest top estimate of £5,000.

The really big money this week will be spent in New York which is hosting two auctions of Old Master paintiogs. At Christie's on Wednesday bids around $500,000 are expected for one of Frans Post's 17th century views painted in Brazil, this time of a sugar mill, while a half-length portrait by Velasquez of Don Francesco Bandres de Arbarca could also approach $500,000.

However, this type of picture is not in fashion at the moment; neither is another Spanish painting, an Immaculate Conception, of around 1660, by Zurbaran, which carries an estimate of $150,000-200,000.

Sotheby's on Friday must have high hopes for "Violin player with a glass of wine" by the 17th century Dutch artist Hendrick Terbrugghen—one of his Caravaggesque portraits sold at Christie's in London last month for £1m while this carries a conservative top estimate of $100,000.

The sale confirms just bow relatively inexpensive Old Master paintings are. Works, admittedly of modest interest, by sucb names as Tintoretto and Salvator Rosa are estimated at $50,000, or less, while a commanding "Christ as the man of sorrows" by Lucas Cranacb tha Elder carries only a $90,000 top estimate.

These low forecasts are linked to the fact that medium quality Old Master paintings have shown little price appreciation in recent years. A highly decorative "The adoration of the Magi" by tha early Netherlands artist Jan de Beer sold for $110,000 in 1975 and is now estimated by Sotheby's at $125,000-$175,000, while "The nativity" by Jan Provost, painted in 1510, is likely to sell for around $150,000—in 1977 it made $84,600 and in 1983 $154,000.

Cut loose.

Now you needn't be tied to just one major manufacturer.

Even better, the new Hewlett-Packard Vectra PC is more than just software and plug compatible with the IBM PC AT.

It's faster. Up to 30% faster than the IBM on identical packages.

And you'll have more elbow room, too. Its modular design takes up 30% less desk top space. Yet the Vectra packs up to a massive 640K memory as standard.

From word processing to executive spreadsheet. Anything the IBM PC AT can do, so can the Vectra. In office automation, networking or distributed processing. The Vectra option is now yours for the asking.

You'll also enjoy all the advice, back-up and support you'd expect from Hewlett-Packard. But with one special extra just for the Vectra. A one year on-site guarantee.

Whether you are contemplating purchase of your first PC, planning a new application or up-grading an existing system, you've now got a real choice.

For full information including full specification and details of extra buy-as-you-need features like printers, plotters and colour monitors, just complete and send the coupon. Or dial 100 and ask for Hewlett-Packard Freefone.

The new Hewlett-Packard Vectra PC.

Now you've got a real choice.

Post to FREEPOST, Customer Enquiry Section, Hewlett-Packard Ltd, [illegible]

Yes, I want to be among the first to know about the new Vectra PC. Please [illegible]

My name is ____

Title ____

Company ____

Address ____

Postcode ____ Tel. No. ____

I am interested in the following applications ____

HEWLETT PACKARD

We can work it out.

IBM IS A REGISTERED TRADEMARK OF INTERNATIONAL BUSINESS MACHINES CORPORATION

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday January 13 1986

Mrs Thatcher to serve

AS PARLIAMENT resumes today, Mrs Margaret Thatcher, the Prime Minister, is under some obligation to make a full statement on the events which led to the resignation of Mr Michael Heseltine, the British Defence Secretary, last week.

The future of Westland Helicopters, to which the story has been hinged, may be a relatively small matter. But Mr Heseltine has made it clear in a series of articles and interviews in the past few days that he is fighting—and will continue to fight—on a broader front. The issue, he insists, is about how Mrs Thatcher's government is run.

Some of his charges may turn out to be wide of the mark. Yet they are sufficiently damaging to do lasting harm to the Government if they remain unanswered. Certainly none of the opposition parties has yet succeeded in putting Mrs Thatcher in such an embarrassing position: where she is challenged not for the nature of her policies, but for her competence in carrying them out.

To start with the technical details. Mr Heseltine has made at least three points that require a full and open response.

National interest

If, as he says, the Government came down in principle last autumn in favour of a European solution seemed a problems, why did it back off almost at the moment when a Europea solution seemed a possibility? To declare a preferred option implies some readiness to s upport it, if it becomes available. An explanation is demanded of why the Government had second thoughts.

Mr Heseltine says he was promised a meeting of the Cabinet subcommittee on economic strategy on December 13—a pregnant date because the European proposals had then come through. It was called off by Mrs Thatcher. That, too, needs explaining.

Again, Mr Heseltine claimed in his resignation press conference last Thursday that Mr Leon Brittan, the Trade and Industry Secretary, had seen Sir Raymond Lygo of British Aerospace the day before and told him that the European consortium, in which BAe was a participant, was against the national interest and the company ought to withdraw. The Industry Secretary has since denied this, but there is still room for public clarification.

Technically, a statement on all those matters could be made by Mr Brittan as the sponsoring minister. It is the wider issue that Mr Heseltine has raised, however, that calls for the statement to come from Mrs Thatcher herself.

For, on the basis of Mr Heseltine's evidence, there are really two charges: duplicity and incompetence. Duplicity is charged because once he had been authorised to go off in the European direction, the Prime Minister and some of her other colleagues went off in another, leaving the Defence Secretary out on a limb.

The charge of incompetence hardly needs to be stated. No government that lands up in the present mess can expect to be regarded as hyper-efficient. Plainly a lot of it had to do with a clash of personalities, just as in previous departures from Mrs Thatcher's administration: Mr James Prior's, for example, or Mr Francis Pym's. Mr Heseltine had also become obsessional. But it still leaves behind a nasty taste, as well as a greyer government.

Opportunity

Yet there is another way in which the charge of incompetence is immensely damaging. Mrs Thatcher has been Prime Minister long enough now to have established a government machine to her liking, and one that works. No-one believes that every decision should, or could, be taken by the full Cabinet. Anyone who wants to can discover that there has long been a system of Cabinet committees where the big discussions take place. On top of that, there is the Cabinet Office and the Prime Minister's Policy Unit. All of those are supposed to intermesh. Mrs Thatcher has had more opportunity than most of her predecessors to refine them. The Westland case suggests that there is still some way to go.

It may well be that Mr Heseltine himself is partly to blame. There are times when he could surely have got through to the Prime Minister or to Sir Robert Armstrong, the Cabinet Secretary, if he had tried harder. Wherever the blame lies, however, it is hardly an advertisement for good government.

Mrs Thatcher should now assume prime ministerial responsibility and come clean: explain the Westland affair in full and drop the fiction that the existence of Cabinet committees is meant to be secret. If she can do that, some progress will have been made. If she cannot, and relies instead on leaks and innuendoes and keeping government out of the open, she will deserve all the flak she will get in parliament this week, and after.

A no-nonsense attack on fraud

THE Roskill Report on fraud trials, published last Friday, is a no-nonsense document which proposes a series of reforms and modernisations, some of which have aroused the predictable fury of the legal profession. Abolition of trial by jury in complex cases, in favour of trial by a three-man tribunal, is the proposal which has caught the headlines. But it is arguable whether it would prove the most important in practice.

Fraud has undoubtedly become a serious problem, but in its most acute form it is very specialised, limited to a small number of financial markets. Broadly defined, fraud covers all kinds of petty misdemeanours, and though there has been a disturbing growth in the number of cases, the success rate in convictions is not a cause for concern. The problems are very much concentrated at the top end; and although there have only been, on average, 26 cases annually in recent years lasting more than 20 days it is also true that in a number of well-known cases the authorities have been reluctant to prosecute because of an inability to gather enough admissable evidence. In other cases, too, the prosecutors have fallen back on more minor charges than the offences have really justified.

Tangle

The characteristics of serious fraud are complexity, remoteness from everyday experience, reliance on documentation, and international connections. The report explains with admirable clarity why these elements cause so much trouble. For instance, photocopies of documents are rarely admitted in evidence, a restriction which may have been justified in Victorian times when copies had to be written out by hand, but which today makes no sense.

Plainly, court procedures must be brought up to date. Evidence must be put over through the use of audio-visual techniques, and foreign witnesses must be allowed to give evidence through video recordings or, when technological developments make them economic, direct satellite links.

This is not particularly contentious, and nor are the proposals to rationalise the tangle of agencies which investigate and prosecute fraud, of which there are four, quite apart from the various London and regional police fraud squads. But when it comes to the conduct of trials the committee's recommendations are more controversial, and indeed one member, Mr Walter Merricks of the Law Society, has objected to measures such as the preliminary disclosure of the defence case, the abolition of peremptory challenges and the replacement of the jury itself by a tribunal in complex cases.

The committee claims that it would be possible to establish a list of 150-200 hand-picked business experts to serve as lay members. There is already, however, a proliferation of professional bodies and self-regulatory organisations which make heavy calls on the available pool of financial practitioners.

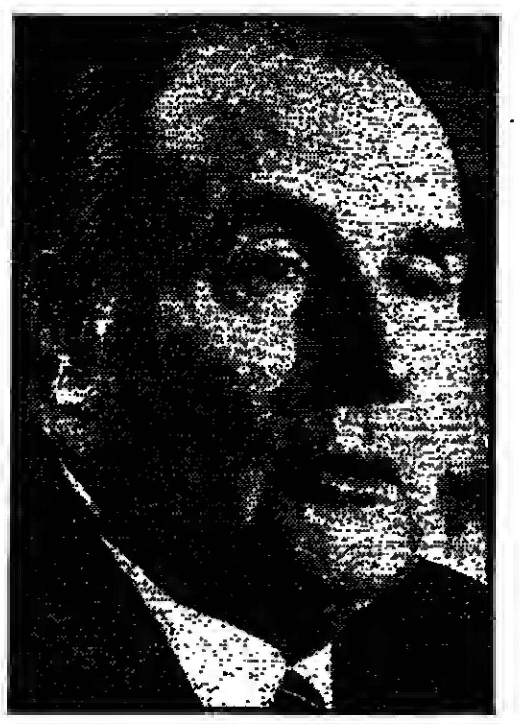
However, the problem here is not so much that the Roskill recommendations lack merit as that it is hard to see why they should be implemented for fraud trials alone. Such proposals need to be looked at in a broader context. In any case, this does not seem to be the most urgent area for attention: however great the collective wisdom of a judge and two financial experts may be, it will not help if the crucial evidence is ruled out of court.

The problem of major fraud is likely to become worse as the development of technology creates ever more obscure opportunities for financial manipulation. The underlying philosophical problem not discussed by Roskill is the extent to which the commercial world should look to the law for protection. As it is, many banks simply write off fraudulent losses as a business cost and do not report them to the authorities. But the idea that white collar crime is somehow different is not one that society as a whole can tolerate.

Privatisation in France

Socialists try to stop the bandwagon

By David Marsh and Paul Betts in Paris



Mr Mitterrand ●

● Mr Chirac

HIGH UP in a Seine-side office block overlooking the Eiffel Tower, Maître Jean Loyrette, a top Parisian corporate lawyer who has mapped out a denationalisation strategy for France's right-wing Opposition, explains how his blueprint could be put into effect. "A third of the chairmen (of nationalised companies) will have to be replaced." Pondering the future of the heads of the nationalised Suez and Paribas holding companies, he muses: "Peyrelevade and Haberer are fringe cases."

A senior executive at one of France's main nationalised banks believes he has overheard his Socialist-appointed chairman preparing the ground with Mr Jacques Chirac, leader of the neo-Gaullist RPR Opposition party and widely tipped as next Prime Minister after the general elections in March.

"Nationalisation was necessary for the survival of our company," says the Socialist appointed chairman of one of the big industrial groups taken over by the state in 1982. "Now, for our continuing survival, de-nationalisation will be favourable. Whoever wins the elections, we are likely to be private in a year's time."

These examples illustrate the nervous agitation sweeping the boardrooms and political salons of Paris as business leaders, opportunity-seeking financiers and corporate head-hunters bustle into line for what could be France's Sale of the Century.

In February 1982 President François Mitterrand lived up to the Left's long-standing pledge to bring into public ownership the country's main banks and most of its top industrial groups, adding to the nationalisations already carried out in 1945 by the post-war government of General de Gaulle.

The French public sector employs one-third of the country's workforce or about 7m people. The banking and industrial holdings add up to the largest state-held business empire in the West. Now, just over two months away from the expected return to power of a right-wing government strongly committed to privatisation, this empire faces the prospect of progressive dismemberment.

One of the right's priorities if the opposition wins the March 16 poll will be to pass through the new Parliament a framework denationalisation law providing for the sale of assets worth at least FFr 150bn (about £14bn) across industry, banking and insurance. Among these assets are some of France's key export-orientated high technology and heavy engineering companies as well as the Big Three banks which are among the dozen largest in the world. The right's programme would also include a Reagan-style deregulation of the notoriously rigid French economy including telecommunications, labour practices and general government restrictions on business.

Although economic and legal as well as political obstacles could hold up the programme, the right hopes to carry out privatisation over a five-year period at an initial rate of FFr 20-25bn a year, according to Mr Alain Juppé, a key adviser to Mr Chirac and the opposition parties' spokesman on denationalisation.

The prospect is already exciting interest well beyond France's borders. Partly because of the narrowness of the French financial markets in comparison with London, for example, the sale of these assets will provide international investors and multinational groups with the chance of new footholds in France.

Some of the world's top investment banks from New York and London, as well as from Frankfurt and Zurich, have been weighing up denationalisation opportunities in France for several months. Both French and foreign financiers plan to draw heavily on the techniques developed for selling state shareholdings in the UK in the last five years.

Leading candidates for prompt sale to the private sector will be the Paribas and Suez financial groups which each own a sprawling collection of industrial and banking stakes. Each group is valued at more than FFr 12bn by the stock market. France's three big and profitable state insurance companies—UAP, AGF and GAN—would together raise around FFr 34bn. The big three commercial banks nationalised in 1945—Banque Nationale de Paris (BNP), Crédit Lyonnais and Société Générale — are worth a total of at least FFr 25bn. The big industrialised groups acquired by the state in 1982 — Compagnie Générale d'Electricité in electronics and engineering; Rhône Poulenc in chemicals; Thomson in defence and electronics; Pechiney in aluminium; and Saint Gobain in glass and engineering—are now all regarded as ripe for denationalisation.

One of the many paradoxes of the French nationalisation saga is that the assets taken over in 1982 for FFr 45bn on the basis of prevailing stock market prices—are now valued at about FFr 150bn. This reflects the general increase in share prices on the Bourse which have almost trebled since the left came to power. Additionally, the newly acquired state industrial groups have carried out successful restructuring which as private enterprises they were often unwilling or unable to do—ironically, at times, because of heavy interference from the previous right-wing administration of Mr Valéry Giscard d'Estaing.

A third significant factor making denationalisation all the more attractive is that the profit motive—so derided by the Left in opposition—combined with a new outward-looking drive to enhance international competitiveness has become a priority for France's state-held industrial companies.

Against this, the Socialists now acknowledge the error of taking 100 per cent control of groups and banks in 1982, several of which were subsequently discovered to be in dire financial straits. Full control not only wasted large sums of taxpayers' money, it also allowed former shareholders to escape from participating in the large capital injections carried out by the state since 1982 to put many of these groups back on their feet. And the 100 per cent takeovers coupled with the management confusion which followed created unnecessary rigidities, hampering development. The state, for example, has been forced to introduce new legislation to enable nationalised groups to approach the Bourse for non-voting equity and loan stock.

Full control has also handicapped major French groups in their efforts to form international and domestic business alliances at a time of dramatic international regrouping in electronics and telecommunications and growing takeover fever in many other sectors in the US, the UK and West Germany. Sales of subsidiaries of French nationalised groups are still illegal, although several companies, including Thomson, CGE and Pechiney have recently breached this rule with the tacit acquiescence of the Government. On the other hand, their efforts to expand into strategic sectors by acquisitions have regularly run into charges of creeping nationalisation.

A year ago some Socialist ministers were dropping hints that they favoured partial denationalisation. But as the elections close in, the Government is defending with vigour its nationalisation record and warning of disruption for the companies themselves and the financial markets if the Right is allowed to carry out its programme. Mrs Edith Cresson, the Minister of Trade and Industry, has invoked in the National Assembly the support of editorials in the London Daily Telegraph to denounce the opposition's plans "to sell the family silver."

Feeding on the typically French fear of domination by foreign multinationals, Mr Laurent Fabius, the Prime Minister, has claimed that the right's strategy could allow IBM to take over the nationalised computer group Bull. To counter these anxieties, the opposition is proposing to limit the overall foreign stake in a given group to 20 per cent, although under EEC rules this limit could not be enforced against investors within the Community. A right-wing government would also keep a "golden share" in the reprivatised concerns to give it veto rights on decisions of national interest.

The right—itself split over the extent and timing of denationalisation and guiltily aware that as a government in the last decade it followed anything but liberal policies—has recently been trying to give its programme a more pragmatic approach. In the last few weeks it has dropped plans to denationalise the heavily loss-making Renault. It has been increasingly put on the defensive by arguments from the Socialists and, even more importantly, from nationalised company chairmen that a further convulsion of the public sector would harm the country's overall interests.

Mr Michel Noir, the RPR's industry spokesman, argues that nationalisation by the left led to an "aberration." He insists on the free enterprise credo: "no activity in the competitive sector should be in the hands of the state." But in recent weeks he has come out in favour of caution and pragmatism in applying the programme.

Denationalisation will inevitably lead to a conflict of interest between the financial needs of the new government and those of the groups. The Right is banking on proceeds from share sales to hold down the budget deficit and help finance tax cuts. Industrial companies and banks, well aware of their chronic under-capitalisation by international standards, are worried that asset sales will strain the financial markets and hinder their efforts to raise fresh money. For example, Mr Georges Pebereau, the chairman of CGE, claims that his group needs to increase its capital assets from a current level of US$1bn to $5bn over the next decade to stay in the international communications business. Mr Jean Peyrelevade, the Suez chairman and a leading figure in the Left's nationalisation programme, says state groups must be allowed to raise funds by issuing equity to private investors, especially to finance acquisitions.

Mr Noir has sought to appease these corporate anxieties by suggesting that some companies would be allowed to raise new capital before the Government's stakes would be offered to the public. He has also ruled out witch-hunts to replace chairman nominated by the Socialists.

But in view of the lasting bitterness felt by many on the right over the Socialist purge of previous chairmen of nationalised groups, especially in the banks, the opposition is bound to use the opportunity to settle scores.

On the capital markets, however, attention is turning less to the question of possible changes at the top of big groups and more towards preparatory financial scheming. Already, several leading financiers displaced by the Socialists four years ago are positioning themselves to take advantage of privatisation. Mr Pierre Moussa, the former Paribas chairman, is now at the head of Dillon Read's London investment banking arm, which has been building up its French equity activities to develop "a track record" for denationalisation.

The Belgian Bruxelles-Lambert financial group, with strong ties to many traditional financial allies of Paribas, believes it could raise $1bn to buy stakes in denationalised French companies. Pre-nationalisation partners of Suez led by Mr Jack Frances, the veteran financier who controls the private Victoire insurance group, have been hatching plans to regain their stakes in the Suez empire. Banque Indosuez, the group's profitable banking arm, has already received half a dozen acquisition propositions from French and foreign groups.

On the Paris Bourse, which has enjoyed its third successive year of record prices and shares volume, creative minds are already working overtime to devise denationalisation techniques. Among options being contemplated are new fiscal incentives for share purchases, schemes modelled on the British Telecom flotation to attract small savers, and swapping government debt into private hands to lower the Government's debt burden and allow investors to acquire state shareholdings.

The big question, however, is still whether the Bourse, the capitalisation of which is about 75 per cent of IBM's, can cope with the denationalisation challenge. The stock market suffered one of its largest one-day falls when President Mitterrand was elected in May 1981. It would be ironic if it were again to fall heavily on the news of a right-wing victory in March.

HOW THEY STAND

Companies' net profits
(FFr million)

	1981	1982	1983	1984
C.G.E.	586	638	662	797
Saint-Gobain	227	−746	498	1,010
Pechiney	−2,416	−4,615	−295	681
Thomson	−167	−2,207	−1,251	−35
Rhone-Poulenc	−286	−787	129	2,026
Bull	−449	−1,351	−625	−489
CDF-Chimie	−1,213	−834	−2,758	−931
EMC	−312	−946	−160	17
Sacilor	−2,897	−3,737	−5,610	−8,141
Usinor	−4,241	−4,604	−5,456	−7,399
Renault*	−675	−1,281	−1.576	−12,663
CGCT	−29	−345	−555	−997

Source: French Industry Ministry.
** Nationalised after the war.*

Men and Matters

Flosdorff boards the bus

The second-highest job at Airbus Industrie in Toulouse looks set to go to a West German for the second time in a row. The formal election by the four-nation airliner group's supervisory board is not due until later this month. But it appears that agreement in principle has already been reached to appoint Herihart Flosdorff, at present head of development at Messerschmidt-Boelkow-Blohm (MBB), the West German aerospace group that is part of the European consortium bidding for a share of Westland.

Aerospatiale of France and Deutsche Airbus (MBB) each has 37.9 per cent of the shares in Airbus, with British Aerospace holding 20 per cent and Casa of France 4.2 per cent.

The French traditionally take the top post at Airbus and last April this went to Jean Pierson, former head of the aircraft division at Aerospatiale. But at the same time, the West Germans managed to slip their man, Johann Schaffler, into the second spot—that of general manager—previously also held by a Frenchman. Now, as the jobs whizz round faster than the wheel of fortune at Westland, Schaeffler is taking over as chief executive at Dornier, thus making room for Flosdorff.

The new man, aged 53, is known as a brilliant engineer, who made his way at MBB in Hamburg before becoming development chief for the group in 1981. He is also something of a diplomat, which should prove useful as he seeks to balance the interests of Germany with those of the other Airbus partners under the tough and ebullient Pierson.

"Our local vicar has taken over the sponsorship"

Grave reading

David Dautresme, fast-moving chairman of Credit du Nord, the nationalised French bank, who has just made headlines in Paris with the announcement of his move to Lazard Frères, likes to show visitors to his office plasticised, paper-weight-style tombstones recording his past financial coups.

It would be surprising if his entry into the Paris branch of the discreetly muscular Lazards did not generate further additions to Dautresme's tombstone collection.

As a sign of the beady pace with which Paris is moving into banking and financial market de-regulation, Dautresme will head up a new department at Lazards specialising in French franc currency bonds and debt instruments.

Dautresme has brought to Credit du Nord not only a more efficient management style but also expertise in treasury and funds management, which previously had been sadly lacking.

Many Paris bankers believe that the Dautresme move heralds the start of a London or New York-style escalation in salaries of head-hunted financial specialists. Certainly, Dautresme will be earning considerably more at Lazards than his Credit remuneration of just over FFr 1m ($135,000). At Lazards he will be able to make maximum profitable use of the Paris financial futures market, finally due to start up this spring. He has been among the specialist bankers who during the last year have fought for the introduction of new markets and trading techniques on the traditionally sleepy French financial scene.

Jumping beans

The high prices currently being fetched for coffee were put to good use on Friday when traders attending a charity auction at Ridges, the importer of Colombian coffee into Britain, dug into their pockets to bid up to £8,000 for a tonne of beans, with the proceeds going to victims of last year's volcano disaster in Armero.

Those pockets are, of course, comfortably lined. Coffee is now fetching around £3,000 a tonne in London — twice the autumn figure — and prices are widely expected to rise a lot further this year as the result of a drought which has wiped out about half of the Brazilian crop.

That means a continuing earnings bonanza for countries with coffee to spare, like Colombia — the second-largest producer after Brazil. But there are fears that the price increase could cause people to try to kick the coffee habit in unprecedented numbers, thus jeopardising the producers' long-term prospects. The new prices are already percolating through to customers, and Britain's resolve will be tested later this month.

On such decisions—whether to switch from coffee to tea for the morning cuppa—hang the fate of nations. A free-falling market would be as great a disaster for Colombia on the economic front as the volcano was for the people of Armero.

Low budget

A genial New Zealander, Dr Graema Low, has been picked as the next director of Harwell, the Atomic Energy Research Establishment, near Oxford.

Low, aged 57, will replace Dr Roberts, who is retiring from the post in April after 40 years' service to take up the Wolfson chair of environmental risk assessment at the University of East Anglia.

Low is currently director of the UK Atomic Energy Authority's Winfrith laboratory in Dorset, a spin-off from Harwell in the 1950s, now about half its size. Most of his career has been spent at Harwell, initially as a solid-state physicist—"part of the materials Mafia," a former colleague says.

During the past 15 years Harwell has slowly increased the "contract" part of its research budget to about half the £120m a year overall it spends today. The rest is provided by the Government.

With the Authority to be placed on a trading-fund basis from April, Low's biggest job over the next year will be to get the other half of the budget paid for through contracts.

Public relations is also likely to be a major concern. A neighbour of the Winfrish laboratory once wrote to a national newspaper complaining of the "spooky" folk she saw behind its fence and how, when driving past, she wound her windows tightly shut to keep out its dreaded emanations.

Low, Pickwickian rather than spooky of aspect—though a former "special agent" in the New Zealand navy—says he believes in throwing open his gates to critics rather than trying to debate such opinions in print.

Observer

BASE LENDING RATES

ABN Bank	12½%	■ Guinness Mahon	12½%
Allied Dunbar & Co.	12½%	■ Hambros Bank	12½%
Allied Irish Bank	12½%	Heritable & Gen. Trust	12½%
American Express Bk.	12½%	■ Hill Samuel	§12½%
Amro Bank	12½%	C. Hoare & Co.	12½%
Henry Ansbacher	12½%	Hongkong & Shanghai	12½%
Associates Cap. Corp.	12 %	Johnson Matthey Bkrs.	12½%
Banco de Bilbao	12½%	Knowsley & Co. Ltd.	13 %
Bank Hapoalim	12½%	Lloyds Bank	12½%
Bank Leumi (UK)	12½%	Edward Manson & Co.	13½%
BCCI	12½%	Meghraj & Sons Ltd.	12½%
Bank of Ireland	12½%	Midland Bank	12½%
Bank of Cyprus	12½%	■ Morgan Grenfell	12½%
Bank of India	12½%	Mount Credit Corp. Ltd.	12½%
Bank of Scotland	12½%	National Bk. of Kuwait	12½%
Banque Belge Ltd.	12½%	National Girobank	12½%
Barclays Bank	12½%	National Westminster	12½%
Beneficial Trust Ltd.	12½%	Northern Bank Ltd.	12½%
Brit. Bank of Mid. East	12½%	Norwich Gen. Trust	12½%
■ Brown Shipley	12½%	People's Trust	13½%
CL Bank Nederland	12½%	PK Finans. Intl. (UK)	13 %
Canada Permanent	12½%	Provincial Trust Ltd.	13½%
Cayzer Ltd.	12½%	R. Raphael & Sons	12½%
Cedar Holdings	12 %	Roxburghe Guarantee	13 %
■ Charterhouse Japhet	12½%	Royal Bank of Scotland	11½%
Citibank NA	12½%	Royal Trust Co. Canada	12½%
Citibank Savings	¶12½%	Standard Chartered	12½%
City Merchant Bank	12½%	TCB	12½%
Clydesdale Bank	12½%	Trustee Savings Bank	12½%
C. E. Coates & Co. Ltd.	12 %	United Bank of Kuwait	12½%
Comm. Bk. N. East	12½%	United Mizrahi Bank	12½%
Consolidated Credits	12½%	Westpac Banking Corp.	12½%
Continental Trust Ltd.	12½%	Whiteaway Laidlaw	13 %
Co-operative Bank	*12½%	Yorkshire Bank	12½%
The Cyprus Popular Bk.	12½%		
Duncan Lawrie	12½%		
E. T. Trust	13 %		
Exeter Trust Ltd.	13 %		
Financial & Gen. Sec.	12½%		
First Nat. Fin. Corp.	12½%		
First Nat. Sec. Ltd.	12½%		
■ Robert Fleming & Co.	12½%		
Robert Fraser & Ptrs.	13½%		
Grindlays Bank	‡12½%		

■ Members of the Accepting Houses Committee.
* 7-day deposits 8.70%. 1-month 9.03%. Top Tier—£2,500+ at 3 months notice 12.06%. At call when £10,000+ remains deposited.
‡ Call deposits £1,000 and over 8% gross.
¶ Mortgage base rate.
§ Demand dep. 8.75%. Mortgage 13%.

Foreign Affairs: Westland

It's not *just* a constitutional issue

By Ian Davidson

Even if Mr Heseltine's allegations against Mrs Thatcher are seriously over-stated, the onus of proof is unavoidably on her...

WHICH EVER way the Westland shareholders decide tomorrow, the battle over the rescue of the British helicopter company has caused serious damage to the credibility of the British Government, both as to its coherence and procedural decorum, and in terms of its reputation in the rest of Europe.

In particular, there must now be grave doubt in other capitals whether Mrs Thatcher's Government is seriously committed to those objectives of European defence collaboration to which it has formally subscribed.

These doubts may be unfair; perhaps Mrs Thatcher and her new Defence Secretary do desire, on their own terms and no doubt with less fervour than Michael Heseltine, greater collaboration in defence procurement between Britain and its European Nato allies. But even before Mr Heseltine's resignation last week, it was abundantly clear that she did not endorse his support for the European bid; and if there is any truth at all in Mr Heseltine's resignation statement, it would appear that she and others in the Government actively tried to obstruct his efforts, and to favour Sikorsky.

Naturally, it would be imprudent to assume that the Heseltine version of events is definitive, without errors of fact, subjective misperceptions and material omissions. In this unsalubrious affair, a single true, definitive account would be hard to assemble. And no one can doubt that Mr Heseltine's personal commitment to his cause has at times been at fever pitch.

Nevertheless, a Cabinet minister who is passionately committed, not just to the dignity, but to the tasks of Defence Secretary, does not resign without reason. Even if his allegations against Mrs Thatcher are seriously overstated, the onus of proof is now unavoidably on her, first to refute them, and second to reassure the governments in other European capitals of her political intentions towards them.

Some people may find Friday's detailed rebuttals from Downing Street and the Department of Trade and Industry inconclusive; perhaps the second task is easier than the first. She gets her new Defence Secretary to write a nice letter to his European counterparts, explaining that the British Government's Euro-enthusiasm (what Euro-enthusiasm?) remains undimmed but that in this case it seemed better to let the shareholders decide.

The trouble is that it is difficult for a government to sound plausible on European defence collaboration if it has not thought through what the idea might entail. One of the recent documents of the Independent European Programme Group, the main body for European defence collaboration, talks approvingly of the idea of "rationalising" the European defence industry. Can Mrs Thatcher really pretend that she will assist this process by (a) leaving key decisions to shareholders and (b) obstructing their access to a European alternative?

In the short run, the American offer may look a safer bet from the shareholders' point of view. Sikorsky is world leader, and the backing of one big helicopter company looks simpler and more manageable than a rescue by a congeries of rival European companies. But what will it do for Westland? No doubt it will get better management; but the decision-making power will increasingly shift to the US.

There would seem to be two basic alternatives, both of which will be dependent primarily on the decisions of European defence ministries. Westland can still seek a European future through collaboration with other European helicopter companies; or else it can settle down to be an outpost for Sikorsky. It is improbable that is can combine these two.

If Sikorsky wins the day, Mr George Younger may seek to persuade his European counterparts that Westland remains a British company, with only a minority American stake, and should therefore be treated even-handedly in future collaborative plans in Europe. They are unlikely to be so persuaded, because they will see Westland as being in the pocket of Sikorsky: in the eyes of the European companies and their political masters, collaboration is certainly not intended to open up the European military market to the American world leader.

Mr Younger will thus be placed in a most invidious position. He can either stick to the established Ministry of Defence line, that the British forces have no requirement for the Sikorsky Black Hawk helicopter, and acquiesce in the progressive exclusion of Westland from European collaboration. Or else he can blatantly abandon the existing agreements with other European governments, to develop helicopter procurement on a collaborative basis, and offer new British orders for Westland-Sikorsky.

In other words, where military equipment is concerned, it makes little sense to pretend that industrial decisions can be left to non-intervention and market forces. By virtue of their buying power, defence ministries are constantly making decisive interventions in the market for defence equipment. Mrs Thatcher has admitted to Sir John Cuckney, Westland's chairman, that Westland's prospects in a European collaborative framework will depend on other European governments, not just on Britain. So if she has been actively promoting the Sikorsky bid, as Mr Heseltine alleges, and as actively obstructing the European bid, the starting presumption in many minds on the Continent will be that she intends to make the Sikorsky bid worth while to Sikorsky, by being prepared, if necessary, to revise the British Government's policy on national procurement and European collaboration.

That may not be her intention. Perhaps she has not thought about the question. But if it is not, then it is a little difficult to make sense of her attitude. In either event, it is even more difficult to make sense of the Government's *declared* policy of non-intervention—if that is what it has been.

In one sense, the whole affair has been a great shame, too unimportant by itself to have warranted the loss of a valuable Defence Secretary and the damage to the reputation of the Thatcher Government. Westland does not merit so much publicity; it is quite a small company; it is not vital to Britain's security. But Sikorsky, Sir John and Mr Heseltine have between them ensured that Westland has been erected into a symbol of two much larger issues.

Those issues are the future of the European enterprise in the broadest terms, and Britain's relationship to it. In itself, it scarcely matters if Westland becomes a short-lived subcontractor to Sikorsky; Europe's future certainly does not depend on preventing US investment in Britain, heaven forbid. But in this case an American sell-off would be a slap in the face to European governments which have only recently been goaded, partly by the zeal of Michael Heseltine, into grappling with the complex and painful problems of European defence procurement collaboration.

Such rationalisation is, in the long run, unavoidable. For centuries the larger European countries (notably Britain and France) have assumed that they can and must build virtually all their defence equipment at home, on grounds of strategic security. That assumption is no longer tenable. National requirements are too small for efficient production; defence equipment inflation is racing ahead of ordinary inflation; everybody wastes too much on R & D for incompatible weapons systems which make defence co-operation on the battlefield a nightmare; national budgets can no longer take the strain.

But this is not just a question of economics. In the past three or four years there has been a gradual but unmistakable resurgence of interest in the idea of reinforcing Europe as a stronger and more united pillar of the Atlantic Alliance. Far from being spontaneous and gratuitous, this interest has been mainly prompted by fears and outside pressures: the East-West frost imposed by President Reagan in the early 1980s; fears about German reliability during the long Euro-missile crisis; concern over the strategic implications of Reagan's Star Wars programme; anxiety that this programme will further widen the competitive technology gap separating Europe from the US and Japan; worries that, unless Europe can field a better defence capability within the constraints of effectively fixed budgets, Senator Sam Nunn may precipitate a withdrawal of US troops from Europe.

However little one may admire Europe's laggardly response to problems whose roots go back for decades, the fact remains that there have been stirrings of a re-awakened consciousness of Europe's politico-strategic problems, notably in the defence field. The Western European Union defence body has been set on its feet again; the French have started to re-appraise their isolationist defence doctrine, especially in relation to Germany; European governments have at last begun to talk seriously about defence procurement co-operation.

The thing that truly amazes me is the number of otherwise well-informed and well-intentioned people who seem blissfully unaware of, or indifferent to, this broader backdrop to the Westland saga. The objective of defence rationalisation in Europe obviously contains many dangers: most importantly that defence contractors which have hitherto done so well out of the national trough will in future be able to magnify their protectionist advantages in an even cosier environment of European cartels. But to pretend, in 1986, that the future ownership of Westland can be a matter of indifference to the British Government is a manifest idiocy.

Meanwhile, the smart shareholders will continue to doubt the long-term survival of Westland, whatever happens tomorrow. Well before the next crisis, they will be over the hills and far away, like the shrewd people who sold to Alan Bristow last week. It is the shareholders whose interests Sir John Cuckney has been looking after with such skill. It is not his job to look after the national interest.

Lombard

A break in the housing chain

By John Plender

PRAISE BE. The Prudential wants to take some of the misery out of buying and selling houses.

Surely the recent announcement that Britain's biggest life assurance group is to act as a jobber and chain breaker in the housing market deserved a bigger fanfare. For while the scheme is limited to a handful of estate agency branches in East Anglia, it indicates that someone important has finally identified one of the few areas where the one-stop financial shop holds out genuine promise for the consumer.

If the experiment works, the Pru intends to go national; it will anyway expand its estate agency operations. Lloyds Bank, meantime, says that it is actively considering a jobbing role in its much larger Black Horse agency network.

It has taken a long time to get here—a fact that highlights one of the great paradoxes of the housing market. Politicians have devoted enormous energy and resource to the promotion of home ownership. Yet the result has been to produce a system of housing finance that is curiously insensitive to what people actually want.

By now virtually everyone outside Westminster and the building society movement recognises that mortgage relief subsidises existing home owners at the expense of first-time buyers and contributes to rising house prices. Some experts also question whether the British system offers as much choice in the types of mortgage on offer as, say, the Dutch housing finance market.

What is beyond dispute is that the housing market itself is appallingly inefficient. Surveying and conveyancing activity involves needless (and costly) duplication. A plethora of professionals, not easily co-ordinated, have to be involved in a relatively simple transaction. Above all, the whole process has been bedevilled by those notorious chains where a succession of buyers are unable to complete because a single one of them cannot sell an existing home.

Here, then, was a classic example of a problem that cried out for deregulation rather than subsidy as a policy solution. To some extent that remains the case, both in relation to the solicitors' still entrenched position in conveyancing and, perhaps more arguably, to the less than full-blooded liberalising measures in the current building societies Bill.

Even so, the less hamstrung financial institutions such as banks and insurers have hardly been fast on their feet in seizing the opportunity to provide a full housebuying package to the consumer. No doubt that is symptomatic of a heavily regulated industry. But it may also reflect concern about risk.

Jobbing in any market is dangerous. It is particularly so in housing, where the asset is very illiquid and the jobber risks being left with an immovable stock of houses with both prices and interest rates moving uncomfortably in the wrong direction.

This, however, is likely to be more of a problem for bankers, who operate on a very narrow capital base, than insurers, who are natural providers of liquidity to markets. In the case of the Prudential the jobbing activity is, incidentally, to be financed from the holding company, Prudential Corporation, as opposed to the insurance subsidiaries whose solvency margins are monitored by the Department of Trade.

For the consumer, meantime, the key question concerns the terms on which the Prudential is prepared to buy, when would-be home owners are holding back. There is to be no fixed discount, it seems, to independent professional valuations of the property; but the range is expected to run from a discount of 2 per cent for highly saleable houses to perhaps as much as 7 per cent for more recalcitrant stock. The Pru aims to do little more than break even on jobbing and to make money from the rest of the package.

It looks like a worthwhile experiment. What a shame no one did it in the bad old days of mortgage famine.

Letters to the Editor

Westland's future

From Mr J. Langham

Sir,—Surely it must be crystal clear to any normally intelligent and informed person why the Westland Board rightly favour the Sikorsky proposal.

It is simply that the only reason for Sikorsky's interest in Westland must be to keep it alive as an effective bridgehead into the European market where conversely the only reason for the European consortium bid is to close down Westland as soon as conveniently possible in the interests of rationalising helicopter manufacturing capacity for the benefit of the ailing French, German and Italian manufacturers.

Under these circumstances to debate the small print of the rival bids and to argue about the lost million pounds is purely academic and quite irrelevant.

John Langham.
Bingham's Melcombe, Dorchester, Dorset.

Curious form of enterprise

From Mr R. Bickford-Smith

Sir,—You report (January 9) that "British Aerospace fears it could lose the wing development contract for two Airbus Industrie aircraft if it cannot persuade the Government over the next few months to provide 100 per cent launching aid, worth up to $500m (£347m) for its share of the ventures."

Westland shareholders should take note of this curious form of private enterprise which demands an apparently bottomless public pocket to sustain its activities. Who is to say that a European consortium would not land us eventually with a common aerospace policy leading to an EEC helicopter mountain?

No doubt it would be incorrect to conclude that BAe no longer has an overall design capability for large passenger aircraft.

Roger A. Bickford-Smith.
Condurrow, Grylls Parc, Helston, Cornwall.

Challenges facing companies

From Mr R. Close

Sir,—Christopher Lorenz's "Anticipating the unexpected" (January 3) concisely describes the acute challenges facing British companies in the coming years.

The high degree of instability and complexity, changing trading relationships internationally, thrusting competition from new sources, and fresh technological advances are characteristics of the present and future business environment. To which I would add the intensified threat of the takeover predator dangerously pressurising companies to improve short-term stock market performance at the expense of essential long-term developments.

But I am sure that no solution of these problems will emerge from a consideration "in the academic world" of the adequacy of the national culture. The right response must come from responsible pragmatic action by boards of directors and senior management. Boards must concern themselves with ensuring that the company's strategic framework is communicated and understood at all levels, and that optimum performance is attained and sustained by making certain the management team — and their teams — have the means, the ability and the *training* to achieve it. Training neglected in boardrooms, as the recent Coopers and Lybrand report described, must again be a board level issue, as must policies directed towards improved decision making, open communications and management and employee involvement. It is board concern with these issues that also provides the essential balance making decentralisation into discrete business units fully effective.

Roy Close.
Flat 20, 3, Cornwall Gardens, SW7.

The City and docklands

From the Chairman, Corporation of London Planning and Communications Committee

Sir,—Colin Amery (January 6) reports hearing the London Docklands Development Corporation being referred to as "the enemy" by someone in Guildhall a few days ago. He should be reassured that such is not the "official" view, nor would most members take such an extreme stance. The Corporation of London welcomes, as surely as all citizens, any prospects of revitalisation of the docks wastelands; the endeavours of LDDC are to be applauded and actively supported.

Of course, certain of the developments currently envisaged will offer occupation and other facilities suitable for City institutions and thereby introduce an element of competition to the City's traditional role. Nevertheless, competition is not alien to us, indeed we have shown an ability to thrive at times when challenge has been most intense. We have accepted that competition is possible and have our own means ready to meet whatever situations might arise.

Mr Amery calls for a concerted effort by both LDDC and the City on the many remaining issues created by docklands. I support that call and hope that the new communications, of which he speaks, will be established without undue delay. None of this will be news to Mr Amery as he heard me say this in a recent speech at Guildhall. Again expressing a personal opinion, I believe the City is now in a much stronger position than it was only a few months ago, now it has revised its local plan and undertaken some independent development studies. It is in this context that we welcome and support LDDC's efforts.

Keith Gugan.
Members' Room, Guildhall EC2.

Doing the right thing

From Mr D. Shaw

Sir,—Your Lombard column (January 3) does well to remind us that we must sometimes ponder the questions "Are we doing the right things?" and "Are we doing things right?"

Unlike Chad or other regions with very harsh climates, where the constant pre-occupation of the people is the fight for survival, the natural environment in most western countries has served to create restless societies with time to indulge their curiosity, experimentation, artistic inclinations, etc.

One modern result is the certainty of bearable mistakes and inequalities, but the burden of Anatole Kaletsky's message seems to be that we are now not doing things right (or not doing the right things) to the point where the mistakes amount to self-inflicted wounds which ought not to be allowed or tolerated.

Railways that run like clockwork; clean, comfortable; spotless stations where litter is always in the right place? Yes, I yearn for the civic pride and commonsense which could make travelling the pleasure it is in Switzerland. And, of course, the Swiss realise that attention to such detail (Mr Kaletsky's final point) brings its own reward. But is it not a behavioural trait as much as (if not more than) a deliberate social policy?

Britain seems to find stability un-exciting, and our natural desire is for growth, innovation, adventure and entertainment. Is Mr Kaletsky advocating repression?

Wrong decisions and poor performance will limit net growth, it is true, and no doubt they have, but the bold approach to creative ideas cannot be denied. Arguments for and against London's third airport or a channel tunnel may rumble on years after the event, as they have for years before, but success or failure will only be established by doing it. If it's the right thing I just hope we do it right.

D. J. Shaw.
153 Turney Road SE21

Home insulation grants

From the Director, Association for the Conservation of Energy.

Sir,—In your story of January 6 entitled "Insulation funds move criticised," you quote a spokesman from the Department of Environment denying this association's statement that the English homes insulation grant was scheduled to be reduced for 1986-87. "The figure is not being cut. It is the same as last year," said the ministerial spokesman.

This is simply not true. For the third year in a row, the real value of the programme—the only government scheme to assist energy efficiency investment throughout the residential building sector—has been reduced. The precise figures read in year end prices: 1984-85 £31m; 1985-86 £28m and 1986-87 £23.5m.

Where I suspect the confusion lies (I am sure not deliberately intended) is in the way this grant is now being administered. Traditionally the entire budget was divided between each district council to administer. Certainly, overall next year's allocations to individual authorities have remained constant in money if not in real terms.

Last April however, for the first time a substantial part (some £7m or 25 per cent) of the current 1985-86 budget was held in reserve by the Department of the Environment, to be available later in the year to council's which exhaust their allocation. Within the first six months of the financial year, around half the English district councils made applications for further resources to the Whitehall civil servants. Nonetheless the cut we have identified comes in precisely this reserve fund, which has been reduced from £7m to £2.5m for 1986-87.

When in 1983 Lord Rayner, acting on behalf of the Prime Minister reported to her upon the way in which government handles its energy conservation programme, he made the specific recommendation that responsibility for the homes insulation scheme should be transferred out of Environment to the Department of Energy. Given that 1986 is energy efficiency year, such a move remains long overdue.

Andrew Warren,
9 Sherlock Mews, W1.

FINANCIAL TIMES
Monday January 13 1986

By Terry Byland on Wall Street

Oil majors may stand a battering

WALL STREET was in one of its most perverse moods last week, plunging dramatically because the US economy seemed to be strengthening. It seems doubly unfair that oil stocks should have shared in the general setback, after suffering throughout last year as Opec crumbled. But wherever the US economy is heading, oil prices still seem to be moving downwards – Venezuela trimmed its crude-oil quotations on Friday.

The weakness in oil stocks hinges on market and industry forecasts that world prices will dip to $25 or even $20 a barrel. But the outlook for stocks, which has been distorted by takeover and restructuring developments in the industry, may not be as bad as it has been painted.

The US oil majors could stand up against a fall in prices, even to $20 a barrel, perhaps better than the market thinks. Balance sheets are strong and debt ratios usually healthy. Moreover, the groups have long-proven ability to handle international fluctuations in prices, taxes, currencies and interest rates.

In broad terms, taxation on production means that governments bear the brunt of revenue losses. Since marginal rates are lower in the US than elsewhere, the benefits fall unevenly among the larger companies.

But among these groups, cash flow should remain strong, whatever happens to crude prices. That provides more than adequate underpinning for the dividend yields which are the main attractions of the sector. It also puts into perspective the speculative flourishes in stocks of Mobil and Texaco, which grabbed market headlines last week.

Company	Yield %
Brit Petroleum	6.4
Chevron	6.4
Exxon	6.7
Royal Dutch	5.1
S & P 500	3.82

Even if crude dipped to $20 a barrel, Exxon, Royal Dutch/Shell, British Petroleum and Chevron could sustain strong cash flows. Even where dividends might not be fully covered, ample funds could be found by a modest trimming of proposed capital expenditures.

Exxon, with a high proportion of non-US earnings and a low debt load, is "relatively immune" to falling oil prices, in the opinion of Dr Paul Mlotek of Salomon Bros. Nearly half of last year's earnings of $1.78 a share came from outside the US, while debt is only 17 per cent of debt plus equity, compared with 28 per cent at BP.

Exxon would probably drop its share buyback policy if oil dropped to $30 a barrel, Mr Mlotek believes. But, with oil at either $25 or $20 a barrel, the group would continue to increase its dividend payments – and oil would be unlikely to remain at $20 a barrel for long.

Royal Dutch/Shell, with only a quarter of annual sales in the US, is also resistant to an oil price decline, although the Royal Dutch stock is the attraction for US investors. Shell transport stock – traded as ADRs in the US – is vulnerable to weakness in sterling if oil prices continue to fall.

Cash-flow growth would be slowed at Royal Dutch at both $25 and $20 oil price, but the group would probably reduce capital expenditure, which is planned at around $7bn annually. Debt is at a comfortable 19 per cent of debt plus equity.

In the case of British Petroleum, the disadvantages of ADR/sterling status may outweigh for US investors a strong cash-flow prospect. Even if oil dips to $25, Salomon Bros sees BP's cash flow increasing from $14.07 a share in 1985 to $14.43 this year, $15.13 in 1987 and $18.26 in 1988. On that basis, dividends might rise sharply over the next three years.

Chevron, having successfully absorbed Gulf Oil, is chopping back its debt burden with vigour, and that will open up substantial dividend opportunities. By 1987, the group might be generating free cash of around $1bn annually, with on predicted oil price fall making much difference. Oil at $25 would leave Chevron room to increase dividends from last year's $2.40 to around $3.00 in 1988.

The stock market has been by no means oblivious to the underlying strength of oil stocks. Despite the year-long slide in oil prices that culminated in the effective collapse of the Opec cartel, Exxon stock gained 22.5 per cent last year. That performance virtually matched the Dow industrials and was easily outpacing them until the market upsurge in the last three months of the year. If oil prices stabilise, and that is not beyond possibility, the oil majors might do well this year.

Joint venture planned to stem GTE Sprint losses

BY PAUL TAYLOR IN NEW YORK

GTE, THE US telecommunications group, is expected to announce plans later this week to stem the losses at its troubled GTE Sprint long-distance telephone unit by combining Sprint's operations with those of United Telecommunications' US telecom unit in a new joint-venture long-distance telephone group.

GTE is also expected to announce that it has signed a preliminary joint venture agreement with Siemens AG of West Germany covering advanced telephone exchange equipment research, marketing and manufacturing. Such an agreement has been under negotiation for more than six months and is seen as an attempt by both companies to bolster their position in the market for advanced digital telecommunications network equipment.

According to Wall Street analysts and industry experts the joint venture agreements – which represent a realignment of the US long-distance telephone market and the world telecommunications exchange equipment business – will be announced after a scheduled GTE board meeting on Thursday. GTE, based in Stamford, Connecticut, said it could not comment on its plans.

Speculation about o restructuring of GTE's long-distance telephone operations has helped lift GTE's share price in recent months. The company's share price closed at $47.50 on Friday, up $1⅞ on the week and up from $40 in late October.

GTE paid $740m for Sprint 2½ years ago and has since pumped over $2bn into expanding and upgrading its network. However, Sprint's losses have continued to mount in the fiercely competitive environment that followed the break-up of the Bell System at the start of 1984 – in part because the carrier, like other AT&T competitors, has been forced to pay more to local telephone companies to complete its customer's long-distance calls.

Sprint, which has a 26,000-mile largely satellite and microwave-based network, about 1.7m mainly residential customers, and about 4 per cent of the total US long-distance telephone market, reported an operating loss of $190.8m in the first nine months last year.

Mr Theodore Brophy, GTE's chairman and chief executive, has been an outspoken critic of some of the Federal Communications Commission (FCC) decisions in the aftermath to the Bell System break-up, which he argues have favoured AT&T and put at risk the survival of competitors like Sprint.

A link with United Telecommunications' much smaller 5,000-mile US Telecom long-distance system was foreshadowed last year when the two companies agreed to share fibre-optic facilities in key US markets. US Telecom currently has less than 1 per cent of the $50bn-a-year US long-distance telephone market. But Kansas City-based United Telecommunications, which also operates the second largest independent local telephone system in the US, has set its sights on grabbing a substantially bigger slice of the market

Shultz rules out US sanctions against other Arab countries

BY REGINALD DALE, US EDITOR, IN WASHINGTON

MR GEORGE SHULTZ, the US Secretary of State, yesterday discounted suggestions that other Arab countries, in addition to Libya, might become the target of US economic sanctions as part of Washington's drive to deter terrorism in the Middle East.

The US had "no plan" to impose sanctions on Syria, despite speculation to that effect by an Administration official last week, Mr Shultz said in an interview with CBS television. He emphasised the exceptional nature of last week's US decision to freeze all Libyan assets in the US.

Mr Shultz spoke immediately after Mr Ali Treiki, the Libyan Foreign Minister, had predicted that other Arab countries would start withdrawing funds from the US and avoid future US investments because of the freeze on Libya's assets, which are estimated to be worth several hundred million dollars.

Arab countries were concerned that their own assets would be frozen, for example if war were suddenly to break out in the Middle East, Mr Treiki said on the same television programme. The US action was "very dangerous to the whole international economic system," he warned.

Mr Shultz, however, said there was "no evidence" of other Arab countries withdrawing their funds and insisted that the decision to freeze Libya's assets had been taken only with Libyan assets had been frozen, not confiscated, and would continue to accumulate interest. The US action had been "a kind of insurance policy" against anything that might happen to American investments in Libya, he added.

Mr Shultz said the US had not thought about imposing sanctions on Syria, and that Syrian attitudes to terrorism and to the US were rather different from those of Libya.

Palestinians warned, Page 2

End quotas, say coffee exporters

By Peter Blackburn in Abidjan

AFRICAN coffee exporters have called for an immediate suspension of all export quotas set under the 1983 international coffee agreement.

The move is intended to increase supplies and help to reduce prices, which have risen sharply in recent weeks to the highest level for more than eight years after fears of massive drought damage to the 1986 Brazilian crop.

The African initiative, taken at a ministerial meeting of the 25 member Inter-African Coffee Organisation (IACO), is to be discussed at a meeting of the executive committee of the International Coffee Organisation in London on January 20–24.

IACO chairman Mr Denis Bra Kanon said the recent sharp rise in prices was artificial and the result of speculative action over term supplies. He said there was enough coffee to meet immediate demand.

The suspension of quotas would allow an increase in exports and help to reduce prices to normal levels, he said. Mr Bra Kanon, Ivory Coast's agriculture minister, pointed out that a few months ago coffee producers were concerned about low prices amid forecasts of increased output and stagnant consumption.

African coffee exporters fear the sharp rise in prices will depress consumption and adversely affect future production.

Mr Bra Kanon emphasised that African producers, who account for 30 per cent of world output, would have no difficulty in fulfilling their 1985-86 export quotas, estimated at 15.6m bags. Most African countries, except Uganda and Cameroun, expect larger crops in 1985-86.

ITC moves towards negotiated settlement

BY STEFAN WAGSTYL IN LONDON AND WONG SULONG IN KUALA LUMPUR

THE International Tin Council holds its first full meeting tomorrow since before Christmas, amid signs that many member governments are moving towards supporting a negotiated settlement of the tin crisis.

At the same time, the three governments most strongly opposed to helping to meet the council's debts – Dutch, French and West German – will have talks on a rescue plan this week.

The Malaysian tin industry is also taking a tough line over the plan which envisages a new company taking over the ITC's tin stockpile and selling it off over three years. Mining companies, whose views are close to those of the Malaysian Government, say it would be detrimental to tin producing countries.

Some tin producing countries have cautiously indicated their willingness to negotiate on the plan, proposed some three weeks ago by Mr Peter Graham, vice chairman of Standard Chartered Bank, and Mr Ralph Kestenbaum, joint managing director of Gerald Metals. Among consumers, the UK has pressed all along for a settlement, but other important countries have so far been opposed.

However, it now seems that unremitting diplomatic pressure from the British Government is beginning to pay off. It is understood that, since the new year, Mrs Thatcher, the British Prime Minister, has written to fellow heads of governments in the EEC and Japan asking for co-operation in efforts to resolve the 10-week-old crisis.

Malaysian producers object to the fact that ITC members will have no control over the £200m ($290m) they are being asked to contribute to the new company, and no guarantee of getting their money back; they say that transferring the ITC's 85,000-tonne tin stockpile to a new company is tantamount to creating the world's biggest tin producer, and would keep prices depressed for years; and they argue that the plan does not take into account producers outside the ITC, such as Brazil and China, which was a strong contributory factor in the current crisis.

The Malaysian miners say an agreed solution should set up a "fair and equitable" settlement price for all ITC contracts; should ensure that tin prices do not plunge sharply when trading resumes; and should establish a long-term plan for the survival of the tin industry, with participation from non-ITC countries.

Meanwhile, the London Metal Exchange tin board and committee is due to meet today to discuss the tin market. The LME authorities have already indicated strongly that they regard January 31 as a deadline ending the suspension of the tin market.

Traders might set a firm date today for reopening the market, or for taking the more controversial step of setting a fixed price for settling all outstanding tin contracts. Some brokers would like to see any decision postponed until Friday, to give the ITC more time. Others feel that the council has already had long enough.

On the unofficial market, tin prices continue to slip further below the pre-suspension LME cash price of £8,507 a tonne. Last week, it was trading as low as £5,870 a tonne in Rotterdam.

● The 13 LME brokers owed money by the Tin Council have stepped up pressure on the Council by releasing a confidential ITC document which shows that member governments were warned in May of their financial obligations.

World Weather

		°C	°F
Ajaccio	F	13	55
Algarve	F	17	63
Algiers	F	17	63
Amsterdam	F	6	43
Athens	S	14	51
Bahrain	S	21	70
Bangkok	—	—	—
Barcelona	S	15	59
Beirut	—	—	—
Belgrade	C	-2	28
Berlin	C	4	39
Biarritz	F	10	50
Blackpool	F	7	45
Bordeaux	S	10	50
Brussels	C	6	43
Budapest	C	-3	27
B. Aires	—	—	—
Cairo	1	18	66
Cape Town	S	27	81
Caracas	—	—	—
Casablanca	F	17	63
Copenhagen	C	3	37
Corfu	T	11	52
Dublin	S	6	43
Dubrovnik	S	7	45
Faro	S	16	61
Florence	S	9	48
Frankfurt	C	5	41
Funchal	S	18	64
Geneva	Sl	5	41
Gibraltar	S	18	64
Guernsey	C	1	48
Helsinki	Sn	-5	23
H. Kong	S	18	64
Innsbruck	Sl	-1	34
Inverness	F	5	41
Istanbul	F	6	43
Jersey	C	9	48
Jo'burg	S	27	81
Las Palmas	S	20	68
Lima	—	—	—
Lisbon	S	13	55
Locarno	S	7	45
London	F	8	46
Los Angeles	F	16	61
Luxembourg	S	2	36
Madrid	S	5	41
Majorca	S	14	57
Malaga	S	18	64
Malta	F	16	61
Manila	—	—	—
Miami	C	15	59
Milan	S	4	39
Moscow	S	-15	5
Munich	F	2	36
Nairobi	S	21	70
Naples	S	13	55
New Delhi	S	20	68
New York	F	1	34
Nice	S	15	59
Oporto	F	11	52
Oslo	C	-5	23
Paris	F	6	43
Prague	F	2	36
Reykjavik	S	-3	27
Rio de J'o	—	—	—
Rome	S	14	57
Salzburg	C	1	34
Seoul	S	-3	27
Singapore	C	25	77
Stockholm	C	0	32
Strasbourg	C	6	43
Sydney	S	34	93
Taipei	—	—	—
Tangier	S	15	59
Tehran	—	—	—
Tel Aviv	S	13	55
Tenerife	—	—	—
Tokyo	S	8	46
Toronto	F	2	36
Tunis	S	17	63
Valencia	S	16	61
Venice	Fg	0	32
Vienna	C	-3	27
Warsaw	C	2	36
Zurich	C	3	37

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Former chiefs of SMH face fraud charges

By Jonathan Carr in Frankfurt

THE TRIAL begins in Frankfurt today of former senior officials of Schroeder, Münchmeyer, Hengst (SMH) – the private bank that nearly collapsed in late 1983 after heavily over-lending to a tottering building machinery group.

The SMH debacle presented West German banking with its worst potential crisis since the crash of Bankhaus Herstatt in 1974, and speeded up moves to tighten the country's credit law.

Only a joint rescue operation hastily mounted by other West German credit institutes, which ultimately cost more than DM 800m ($326m), pulled SMH back from the brink and prevented a fall in public confidence in the banking system.

Appearing before the Hesse state court (*Landgericht*) today are Mr Hans-Hermann Münchmeyer and Mr Wolfgang Stryj, both former partners at SMH, and Mr Ralf-Rene Luctus, a former senior employee at the bank.

Count Ferdinand von Galen, former senior partner, and Mr Hans Lampert, another partner, will face the court on January 23. Present estimates are that the proceedings, at least against some of the accused, might last into the autumn.

The partners are charged with fraud and breach of trust in connection with SMH's dealings with IBH, the construction machinery empire built up by Mr Horst-Dieter Esch.

Under the provisions of West German credit law, which have since been further toughened, a bank could lend only 75 per cent of its liable capital (share capital plus reserves) to a single client.

However SMH, with liable capital of DM 110m, built up a credit exposure to the IBH group of close to DM 1bn, and by November 1983 it had to admit it was in trouble.

West German credit supervisors long failed to spot the full extent of SMH's exposure because much of the lending went to different companies associated with IBH and part was channelled via Luxembourg and Switzerland.

After the West German banks' rescue operation SMH was split into two and the "healthy" parts – including a flourishing securities business – were sold to Lloyds Bank, which continued to use the SMH name.

IBH slid into bankruptcy soon after the SMH rescue and Mr Esch was sentenced in late 1984 to 3½ years' jail for breach of trust and contravening West German company law.

The SMH affair caused shock waves because the bank, formed by a merger of three separate institutes in 1968, had been widely seen as one of the most prestigious and dynamic in West Germany.

Count von Galen, now aged 50, was President of the Frankfurt stock exchange until his bank's near-crash and he and his wife, Anita, were leading socialites.

He was arrested in Frankfurt's banking district 13 months ago after flying in from Paris to give information about SMH, and has since remained in jail.

Members of his family and friends last October offered bail of DM 10m – one of the highest such sums put up in the country's history – but a court ruled that there was a danger that Count von Galen might none the less flee the country.

Pennzoil to appeal against court ruling

Continued from Page 1

ers bet on the outcome of the complex legal battle.

Pennzoil shares, which had touched $90 last week, fell by 75 cents, to $71.25 on Friday, although the news came after the close of official business on the New York Stock Exchange.

In order to appeal over the damages awarded by a Texas court, Texaco has to post a bond which was initially set at $12bn. Texaco has argued that it might have to file for bankruptcy if forced to post a bond of this size and the possibility has resulted in serious financial problems for the company.

In granting Texaco a preliminary injunction on Friday, Federal Court Judge Charles Brieant noted that "the concept of posting a bond of more than $12bn is just so absurd, so impractical and so expensive that it hardly bears discussion."

Pennzoil says it is "confident" that Judge Brieant's ruling will be overturned when its appeal is heard by the Second Circuit Court in New York. According to several legal experts it is far from certain that Texaco will win its case on the appeal bond issue.

Leutwiler sees SA reform

Continued from Page 1

during the past 12 months and had "noted" the concrete proposals for change.

Apart from President Botha, Dr Leutwiler met about 20 people of all race groups selected by the South African Reserve Bank. They included Chief Gatsha Buthelezi, the Zulu leader, and elected black, coloured and Indian politicians.

● Dr Chester Crocker, the US Assistant Secretary of State, arrived in South Africa for two days of meetings with Government and other leaders.

THE LEX COLUMN

Placing trust in Hanson

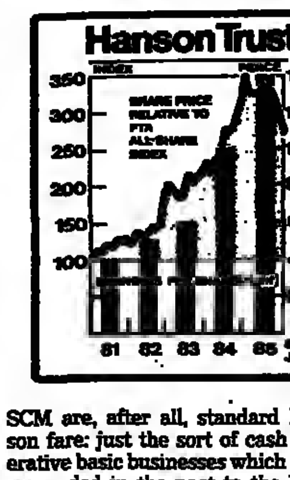
When Imperial Group produces its defence document later this week it is expected to boldly go where no company has gone before – into the accounts of Hanson Trust. Taking pot shots at the Hanson track-record is not a course of action which merchant bankers have generally recommended to their clients. Hanson's victims have never been able to match the earnings per share growth reported by Hanson itself, with the result that attack has been a dangerous form of defence. Imperial may find that, when it comes to slinging mud, more sticks to its own face than to Hanson's but it is significant that corporate financiers no longer see Hanson as an invulnerable target.

Hanson Trust's most conspicuous weak spot is its own share price performance. The equity has underperformed the UK market as a whole by almost a quarter in the past year and, if the group hoped that launching a bid for Imperial or seizing control of SCM would change sentiment for the better, it will have been disappointed. A year ago the rise in the Hanson share price was Powell Duffryn's biggest defensive headache. Imperial is not without its problems, but the movement in the Hanson price does not seem to be one of them.

The lacklustre performance must reflect, in part at least, the volume of Hanson paper which the market is being asked to absorb. If Hanson succeeds in winning Imperial on the present terms, the group's issued share capital – adjusting for scrip issues – will stand around 75 per cent above the level of September 1984.

The deluge of paper cannot be the sole reason for the market's less flattering perception of Hanson equity. On the assumption that SCM makes a positive contribution to earnings in year one, the Hanson share price represents only about 11½ times likely earnings for the year to September, on a fully diluted basis. That is roughly in line with the market as a whole, which scarcely does justice to Hanson's remarkable record of consistent earnings and dividend growth. BTR, by comparison, merits a multiple of about 13 times 1986 earnings.

Hanson itself – indeed himself – is not surprisingly puzzled by the humdrum rating. Both Imps and



SCM are, after all, standard Hanson fare: just the sort of cash generative basic businesses which have responded in the past to the Hanson treatment. That, however, may be the nub of the problem. The equity market is increasingly of the view that Hanson's earnings growth is largely a product of successful acquisitions and that, once SCM and Imps are out of the way, it will be very difficult for the group to carry on working its takeover magic.

If Hanson succeeds in carrying off Imps, it will sport a market capitalisation of around £4bn. For a group of that size to boost earnings by a significant amount through acquisition would require takeovers on a very large scale indeed. The UK, so the argument runs, would no longer be a fertile hunting ground – there are simply not enough multi-billion-pound companies to buy – while the SCM experience suggests that as the US targets get bigger, so do the legal fees and the premiums to net asset value.

To suggest that Hanson is going ex-growth just as it is tackling acquisitions worth around £2.6bn may seem perverse. But the market is already looking to 1987 and beyond; and there is some evidence from the 1985 results to support the idea that acquisitions are what makes Hanson tick.

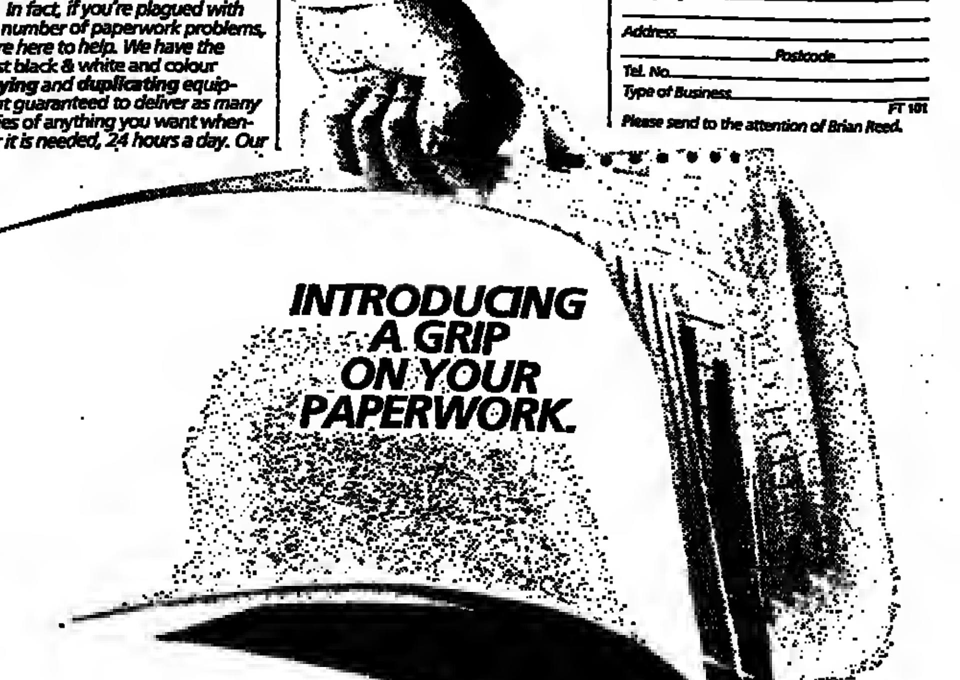
Hanson reported a 40 per cent increase in profits before tax – to £252.8m – for the year to September 1985. An analysis of the operating results, however, gives a rather different picture of the underlying performance. If the brick division excluded from both 1984 and 1985 – to strip out the effect of the London Brick acquisition – and if US Industries is credited with a notional full-year profit for 1984, sterling operating profits appear scarcely to have risen during 1985.

That is admittedly a crude comparison. It excludes, for example, any underlying growth in Butterley – which forms part of Hanson Brick – and takes no account of the effect of translation losses on dollar profits.

The more important objection, however, is that Hanson does not measure its own success by operating profits or, like BTR, by return on sales. Return on capital employed, its own yardstick, rose last year from 20.1 per cent to 28 per cent. Over the past five years, Hanson's return has been roughly seven percentage points above that achieved by British industry as a whole. In cash flow terms, too, its performance has been well above average.

There is little doubt that Hanson's earnings growth will slow over the next five years. It does, for all its strengths, appear less successful than BTR at realising consistent profits growth from its established businesses, while the scope for acquisitions is bound to become proportionately smaller. A slow-down has, however, already been amply discounted in the share price.

Hanson is on less solid ground when it tries to answer the market's other principal worry – management succession. Both Lord Hanson and Sir Gordon White are approaching the conventional retirement age and neither has an obvious heir. While Hanson Trust has more than its fair share of able and highly motivated managers, it owes its success to the two co-founders. The group has flourished through the ruthless application of simple business principles and it is not surprisingly reluctant to change its formula. Yet, if instead of bidding for Imperial, Hanson had sought out a company with conspicuously strong management and underlying growth potential, it might have settled some of the market's worries about future earnings and management succession. A merger with, for example, BOC might have pushed the Hanson share price on to the rating which the group believes it merits.



SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday January 13 1986

Dollar-based funds reap rewards of currency switches

BY ALEXANDER NICOLL IN LONDON

THE DOLLAR's fall last year might have beeo expected to benefit dollar-based investors who made a timely move into foreign bond markets. But dollar bonds themselves provided ottractive returns and not-to-be-missed capital gains. So the most successful bond fund managers of 1985 were those who, through skilful use of the currency markets, got the benefit of both phenomena.

A survey of 150 international funds with a total $16bn in assets by The Eurobond Letter, o weekly newsletter, shows that the highest returns – measured as change in net asset value with an adjustment for dividend payments – were achieved by dollar-denominated funds with the ability to invest in more than one currency.

The overage return from dollar-based multicurrency funds was 28.07 per cent, as compared with 17.01 per cent from dollar-based funds investing only in dollar bonds.

Many successful multicurrency funds, however, must have followed o similar strategy to the top performer, the $13m Worldinvest Income Fund, advised by Bank of America Internotional. It obtained a 36.6 per cent return.

Despite its multicurrency status, Worldinvest was fully invested in dollar bonds, but covered in the forward foreign-exchange market much of the risk associated with a dollar decline. (Most of the dollar bond holdings have since been sold, Eurobond Letter says.)

Seven other funds of the same type, led by GT Management'a GT Bond Fund and Svenska International's SHB Bond Fund, showed returns of more than 30 per cent. Lombard Odier's Obiflex Long-term with a 23.3 per cent return, topped the dollar-based funds investing only in dollar bonds.

By far the biggest sector, with DM 18.5bn of assets in just four funds, is that of DM-based multicurrency funds. Unirenta, advised by Unioo Invest, returned 11.45 per cent, and International Rentenfonds, advised by Dresdner Bank, returned 10 per cent. They outperformed the most successful DM-denominated Mark bond funds, Lombard Odier'a Obiflex DM and BHF Bank'a Interzins, which both returned 9.6 per cent.

Among seven Swiss-franc-denominated multicurrency funds, managing SFr 5bn, Bank Julius Baer showed the highest return of 5.87 per cent, lower than the best-performing fund investing only in the Swiss currency, Swiss Bank's Swiss Foreign Bond Selection, which returned 7.25 per cent.

McLean files for bankruptcy

BY OUR NEW YORK STAFF

MCLEAN TRUCKING, the fifth biggest trucking company in the US, has filed for protection under Chapter 11 of the US bankruptcy code in a move which has idled 3,800 trucks across the US.

McLean Trucking, which was founded, and later sold, by Mr Malcolm McLean, the container shipping pioneer, is believed to be the biggest trucking company to file for bankruptcy since the industry was deregulated in 1980.

McLean is controlled by the Wedge Group. Citicorp Industrial Credit, one of the company's main lenders, said after the bankruptcy filing that while it had worked extensively with the company's management to solve its working capital needs it was "not in a position to extend credit in amounts in excess of eligible collateral" to secure its loans.

INTERNATIONAL BONDS

US interest rate worries hit market

ONE SUMMING-UP of the Eurobond market's return to work after the holidays was "Heaven and hell, all in a week," writes **Maggie Urry in London.**

At the beginning of last week, the enthusiasm created by hopes of US interest-rate cuts brought out the first coupons below 9 per cent in the Eurodollar market for years. Midweek, the mood changed dramatically, and bond prices declined when the chances of an interest-rate cut faded rapidly.

By Friday some calm had returned to the scene and prices edged up in the afternoon. Banque Paribas even launched o deal for Chrysler, again using the structure of a five-year issue with put options at rising prices after two, three and four years.

But even so, all the week's fixed-rate dollar deals were trading outside their commissions.

The floater market was in poor shape, too, with Citicorp's $500m issue quoted at a level far below the co-managers' break-even price.

The outlook was still gloomy as traders left for home on Friday. Many had expected some sort of correction after a rise that had gone too far. The shock came from the speed of the turnround. Traders spent Friday afternoon planning a "bear market scenario". Borrowers, who at the start of the week were looking forward to locking into the new low interest rates, are now thinking again, waiting for the market to settle.

The only consolation for syndicate managers is that yield spreads, compared with US Treasury bonds, have narrowed once more making swap deals slightly more workable. Even so, without another reversal of mood, the new-issue business is likely to be slow this week – an unusual state of affairs in January.

Even issues with equity warrants – one of the strongest features of the market lately – were knocked back by the fall in bond and equity markets. UBS Finance's issue fell from a peak of around 108 to about 104. Sumitomo's issue, launched on Friday, traded around 103 – a success, although less of one than some pre-Christmas deals.

Part of the reason seems to be that demand from Japanese investors (who are now allowed to buy equity warrants separate from bonds) although large, has not met best expectations. Some traders had bought warrants before the relaxation to make a profit from selling them to the Japanese, so most of the action has already taken place.

The problems in the Eurodollar bond market have spread elsewhere. The Euro-D-Mark market has yet to see a deal this year, although the January volume was expected to be high. Syndicate managers now seem to have worked out that under the new calendar system it is best to put in as many deals as possible in case the market is strong, and then not bring them if conditions are poor.

The floater market in West Germany has been hit badly, with bank paper and capped deals under particular pressure. Some issues are trading as low as 98½ and dealing spreads have widened.

If borrowers are not coming to the dollar and D-Mark markets then they are diverting to the Euroyen market and the Euro-Australian-dollar sector. Such issues are virtually all swap-driven, with borrowers mainly looking for floating-rate US dollars. The difficulty is placing the paper with investors who may not be as eothusiastic as the banks launching the issues.

The Euroyen market has performed rather better than other sectors, but paper is now beginning to flood in with two deals launched on Friday and more, including one from Philip Morris, expected. New issues do not seem to be trading actively at profitable levels and dealers complain that a few weeks after launch it is hard to find a two-way price in some bonds.

The process has gone further with the Australian dollar issues – six were launched last week. By the weekend the best of them were trading just inside their fees.

The only market that seems to be able to maintain the rally is the Swiss franc foreign-bond sector. Some traders there believe the market is not influenced by the moves in New York, others that the reaction has been delayed. Nevertheless, prices were slightly firmer during the week and new-issue coupons are coming down.

On Friday two deals were launched that many traders felt were too tightly priced. SBC set a 4⅞ per cent coupon and 100½ issue price for a private placement for Nippoa Telephone and Telegraph. That is o highly prized borrower but, even so, the terms were aggressive and it might take investors some time to get used to the coupon under 5 per cent. Some dealers were quoting the issue at a 2-point discount.

The other deal for Phibro-Salomon, led by Morgan Guaranty (Switzerland), was not quite so aggressive with a 5⅛ per cent coupon. Salomon Brothers, which opened its new office in Switzerland, is co-lead. The issue was swap-related and more US corporates are expected in the market if the swaps can be arranged.

EURONOTES AND CREDITS

Lower fees could tempt borrowers to renegotiate

A CONTINUING flow of renegotiation business seems likely to dominate the Euronote market in the early months of this year, writes **Peter Montagnon, Euromarkets Correspondent, in London.**

One conclusion banks have reached on looking back at 1985 is that the commitment fees paid at the beginning of the year now look generous compared with the going rate of about 5 basis points for top-rated borrowers.

As a result, borrowers could be tempted to renegotiate existing facilities to achieve lower fees, as well as to add Eurocommercial paper options which continue to grow in popularity.

The $4bn facility launched by Sweden in mid-1984 provides a clear example of the way pricing has moved. It carries a 12.5 basis point commitment fee while last month's $700m deal for Gaz de France carries a fee of just 5 points.

Moreover, Sweden is paying a commitment fee oo all $4bn, substantially more than it has ever needed to draw. Some bankers argue it is also more than the note market – where outstanding issued notes probably still total little more than $15bn – could readily absorb.

So it is not surprising that the market has now begun to talk about the possibility of Sweden deciding to renegotiate the deal.

If it did decide to go ahead, however, Sweden could expect substantial cost savings although making such a decisioo on a facility as large as $4bn is hardly easy.

One lingering uncertainty is the prospect of tighter central bank regulation of off-balance sheet commitments. That could make it difficult to persuade banks to take on, at low fees, the kind of big-ticket underwriting such a large deal would require.

Another doubt is the risk of simply forcing the market too far. While commitment fees have sunk to a low level, several banks appear to be shying away from the terms under discussion for a forthcoming large facility for SNCF, the French state railway.

This deal, which is keenly awaited, failed to materialise last week though the delay is thought to be due in part to the fact that the borrower is considering different types of structure, including that of the partly paid floating-rate note concept pioneered by Credit Suisse First Boston on a $800m deal for Banque Nationale de Paris last June.

One other trend that is also clearly established for 1986 is the growing popularity of commercial paper programmes. Where these are associated with restructuring of existing facilities, they can leave a bad taste with banks which originally entered into underwriting commitments to gain a place on the tender panel that bids for any notes actually issued. As tender panels increasingly give way to dealerships, these banks are left with the low-yield underwriting but with no access to paper which they can distribute at a profit.

Two programmes launched last week marked, however, a market debut for the borrowers concerned. Paine Webber of New York announced a $100m programme for the trading group C. Itoh. It is the second programme for a Japanese borrower.

Astra, the Swedish pharmaceutical manufacturer, launched a $100m programme for which Enskilda Securities and Credit Suisse First Boston will be dealers.

Boost for ailing Allis Chalmers

By William Hall in New York

CHICAGO investor Mr Samuel Zell has entered into an optioa agreement to acquire a substantial stake in Allis-Chalmers, the struggling process equipment manufacturer which has been losing money for the past five years.

CA Ltd, an investment partnership controlled by Mr Zell and Mr Robert Lurie, has obtained options to acquire 3.36m shares of Allis-Chalmers cumulative redeemable convertible preferred stock Series D from certaia institutions and has offered to accept additional options from other bolders on or before January 24, 1986.

The stock was issued as part of the May 1985 financial restructuring of Allis-Chalmers in exchange for various debt and equity securities beld by various institutional investors. The options are exercisable on an all-or-noae basis on or before June 30, 1986, at a price equal to $5.50 per underlying share of common stock. Allis-Chalmers shares closed unchanged at $4 oa Friday.

The Series D options held by CA Ltd represent about 61 per cent of the Series D shares and are convertible into 8.88m commoa shares of Allis-Chalmers.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,304.1	140.9	816.0	157.0
Prev	1,777.6	1.7	509.0	101.0
Other	896.9	0.2	511.0	97.5
Prev	419.8	0.9	438.2	37.7
Secondary Market				
US$	7,758.6	409.3	4,563.2	1,390.1
Prev	10,402.7	823.1	8,801.8	1,888.4
Other	2,385.2	72.5	825.7	1,897.3
Prev	2,774.2	98.3	973.1	1,936.3

	Cedel	Euroclear	Total
US$	6,039.4	11,499.9	17,539.3
Prev	6,393.9	15,712.2	22,106.1
Other	3,307.8	2,778.6	6,086.4
Prev	3,167.1	3,512.4	6,679.5

Week to January 9 1986 — *Source AIBD*

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Signs of stronger economy halt the rally

US INTEREST rates rose sharply across the maturity spectrum last week as unexpectedly strong signs of economic growth caused a steep fall in bond prices, all but extinguished dying hopes of an early cut in discount rate by the Federal Reserve and scattered market bulls and retail investors.

The bond market rally, fuelled for over a month by speculation about a cut in discount rate from the current 7.5 per cent, came to an abrupt halt on Wednesday. The immediate trigger for the market's sharp reversal was the December employment data, which showed the civilian unemployment rate falling by 0.1 per cent to 6.9 per cent.

The news prompted most senior Wall Street economists to reassess their short-term forecasts. Among those reversing their earlier predictions, Dr Henry Kaufman of Salomon Brothers noted on Wednesday afternoon that the December unemployment news reduces significantly the chances for a discount rate cut within the very near future. The 320,000 increase in payroll employment was broadly based and included a 46,000 increase in employment in manufacturing. This and other data suggests that December income and production statistics to be announced in a few weeks will also be quite strong.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.88	10.32	7.94	8.91	7.10
Three-month Treasury bills	7.20	7.07	6.88	0.75	0.67
Six-month Treasury bills	7.30	7.13	6.97	8.20	9.61
Three-month prime CDs	7.94	7.83	7.70	9.40	7.35
30-day Commercial Paper	7.75	7.85	7.76	0.95	6.95
90-day Commercial Paper	7.65	7.10	7.60	9.20	7.00

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	97½	(new)	9.26	(new)	(new)
20-year Treasury	96½	(new)	9.75	(new)	(new)
30-year Treasury	102⅞	−3¼	9.58	0.28	9.66
New 10-year "A" Financial	n/a	−1¼	10.05	9.20	10.00
New "AA" Long utility	n/a	−2½	10.63	10.35	10.63
New "AA" Long industrial	n/a	−3¼	10.50	10.15	10.60

Money Supply: In the week ended Dec 30 M1 fell by $3.1bn to $624.7bn

Source: FT estimates and Salomon Bros.

The implications for the financial markets are that intermediate and long-term fixed income obligations will now have to trade on the expectations that there will be no further decline in short-term interest rates and that, at best, money rates will trade steadily somewhere around current levels over the near term.

The underlying message, echoed by other senior economists, was not lost on investors or dealers. On Wednesday they piled into the markets to lighten their portfolios. Losses in the final three trading sessions overwhelmed gains earlier in the week, and equity prices followed downwards.

The Treasury long bond lost 1¾ points on Wednesday, 1¼ points on Thursday and 1¼ points on Friday to post a net loss of 3¼ points on the week. The losses sent the yield on the 30-year bond shooting back up to around the 9.60 per cent level from a low of just under 9.10 per cent and wiped out more than 20 per cent of the substantial gains made in the recent rally.

In the Government markets overall prices tumbled by between ½ and 4¼ points. The seven and 20-year auctions brought investors yields of 9.17 per cent and 9.43 per cent respectively — but when-issued prices of both maturities had plunged by the weekend, and the respective yields moved up to 9.26 per cent and 9.78 per cent.

In the money markets the Fed funds rate held steady but most taxable short-term interest rates ended the week between 10 and 30 basis points higher, maintaining the yield spread and relatively flat yield curve.

An unexpectedly large $3.1bn decline in M1, the basic money supply measure, announced late on Thursday, did little to calm the market's nerves. Investors are already looking ahead and expect a further bulge in M1 and a speed-up in the better-behaved M2 and M3 aggregates.

On Thursday the Fed will release the monthly money supply figures for December, which will probably show that while M1 ended the year well above target, M2 came in just below the top of the Fed target range while M3 remained comfortably within its target band.

The market also expects the funds rate to come under upward pressure beginning this week as end-year tax payments roll in, swelling the Treasury's balances to perhaps as much as $40bn from around $18bn.

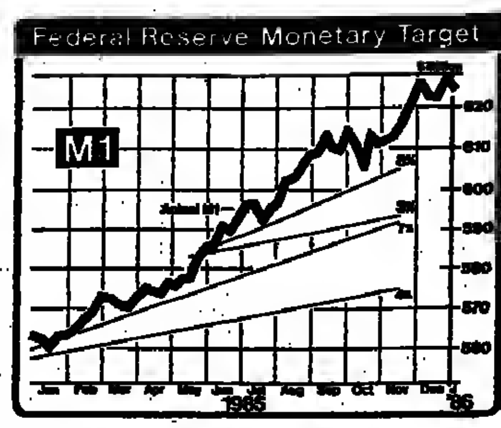
While most senior economists expect the Fed to ride out the storm—maintaining a steady monetary policy over the next few weeks—sharp swings in the funds rate could add to market jitters.

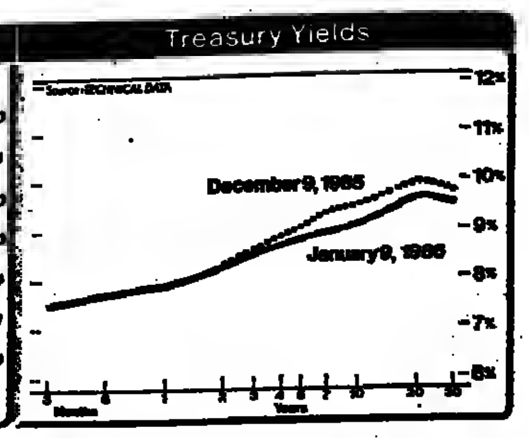
The US credit markets face other uncertainties. Last week there were reports that Arab investors in particular were shifting funds out of dollar-denominated securities in protest at the US economic embargo against Libya. While there was no evidence of widespread sales, the current confusion in the US markets could deter new foreign investment.

In the short term however, the US markets do not appear in good shape. This week will see the auction of $9bn in one-year bills on Thursday together with a bunch of new economic statistics including December retail sales due out on Tuesday and industrial production statistics on Wednesday.

Corporate bond prices followed the government market lower last week. Overall corporate prices fell by between 1½ and 1¾ points as new issue yield increased by 13 to 38 basis points. Salomon Brothers notes that the late 1985 rally generally allowed sharper yield declines in higher-quality issues than in those of lower quality; as a result many quality yield spreads are wider now than they were through much of 1985.

Paul Taylor





UK GILTS

A market not yet out of the wood

LAST WEEK'S events constitute something of a warning for the gilt-edged market. If, when oil priceo and sterling are fairly firm, market jitters can force up base rates from e near record level in real terms, what will happen when the oil price slides in earnest?

It is little comfort to argue that a substantial fall in the oil price—down to, say, $20-21 a barrel—is already "discounted" by the market. When the bad things that are supposedly discounted actually happen, the market reaction is rarely rational; prices often take a battering.

There was some brave talk to the effect that the Treasury's willingness to concede a rise in base rates, on the barest provocation, had improved the Chancellor's credibility. There may be something in this. On the other hand, the market may merely conclude that the Treasury is as nervous as everybody else about the prospect of oil prices approaching free market levels.

Some analysts argue that the authorities should take a much firmer line with the unruly money markets, which at one point last week had pushed three-month rates up to 13¼ per cent, way above the officially sanctioned 12½ per cent level of base rates.

Mr Roger Bootle, chief economist at Capel Cure Myers, argues that it is as much speculation about the future course of interest rates as funding pressures that drives the cost of money in the UK to such giddy levels. Following G5, the authorities now recognise that the foreign exchange markets cannot be left to indulge in unrestrained speculation; Mr Bootle suggests the London money markets are just as much in need of a firm hand.

The unanswered fundamental question, however, is why UK real interest rates are so far above those in the rest of the industrialised world. Can oil be the whole answer? Soma analyst say "no," the level of UK rates is symptomatic of a lack of confidence in Britain that goes much deeper.

One senior partner in a leading broking firm has a simple, if rather chilling, explanation of the UK's abnormal interest rates. They are a risk premium, he says, for an economy that is "held together with string" and which "lacks much productive potential." He argues that a more interventionist approach is necessary.

Two other reasons for the level of rates and the dismal performance of gilts are inflation and electoral uncertainties. Inflation is certain to fall in the next few months, yet the longer term prospects remain murky: the bear factors are the UK's uniquely high level of pay settlements (which is now causing great concern among OECD analysts in Paris) and the total confusion surrounding monetary policy.

"I'm extremely concerned about the lack of intellectual coherence of strategy on the monetary front," says Mr Peter Fellner, the gilts analyst at James Capel. He argues that people are worried by the surge in bank lending and the broad measures of liquidity and distrust the authorities' new line of "trust us, we know best," which followed the suspension of the £M3 target.

Gilt market arithmetic has been influenced by electoral considerations for some time. Foreign investors in particular have long time horizons: for them a mid-1987 General Election and the outside chance of a Kinnock government is a very real concern.

Mr Michael Heseltine's resignation can only have exacerbated the worries, for it seems bound to damage the Conservative Party's election prospects. At best, the Thatcher camp has lost its most able communicator; at worst the party could be severely strained if the resignation proves the precursor for a Heseltine run for the leadership.

Michael Prowse

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS; YEN STRAIGHTS; LUXFR STRAIGHTS; GUILDER STRAIGHTS; CANADIAN DOLLAR STRAIGHTS; ECU STRAIGHTS; AUSTRALIAN DOLLAR STRAIGHTS; STERLING STRAIGHTS; EQUITY WARRANTS; BOND WARRANTS

[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. Chg. on week=Change over price a week earlier.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. † Perpetual.

For technical reasons, conversion premiums on convertible bonds are omitted from this week's table.

هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Lazard sets up long-term strategy group

PLOTTING mergers and acquisitions—and fighting off unwanted takeover bids—on behalf of corporate clients has become big business for UK merchant banks.

Yet most of the wheeling and dealing which earns them their fees could hardly be described as strategic, despite the huge sums of money involved. Merchant banks are at the tactical end of the business: looking for bright ideas, skirmishing and savouring victory or defeat after the battle is over. The actual strategy underlying the deal is basically the responsibility of the company itself, even if the merchant bank played a band in shaping it and came up with the idea in the first place.

To most merchant bankers, this is as it should be. They do not see themselves in the planning business.

Lazard Brothers, however, is taking a different view. The bank has recently set up a Corporate Strategy Group (CSG), which acts as a kind of consultancy service to help its clients with their long-term planning and to conduct studies of particular markets.

The group operates as a separate unit within the corporate finance department and is beaded by Mr Peter Newey, a director who was previously engaged in strategic planning at Costains. "Merchant banks have become so involved in financial engineering that they have surrendered this territory to others," he said. "What we're doing is part of an awareness of the need to recapture that ground."

The seven-strong group prepares reports for clients (which become their property) to help them put together strategic plans and answer questions about what their business should be and how their resources could be better deployed. Clearly, the need for such a service exists—witness the proliferation of management consultancies, and the eagerness with which accounting firms have now moved into the business. But is a merchant bank the right place?

The suspicion will always exist that for a merchant bank, consultancy is basically a marketing tool for the corporate finance department, which earns the biggest fees. Although Mr Newey's group is part of that department, be insists that it is independent and will advise against acquisitions if it thinks that is right. Mr Marcus Agius, a director in corporate finance, said: "Nothing increases a client's respect for you more than wheo you say they shouldn't do something."

Nevertheless, the CSG's sales literature stresses that Lazards will not only plan a strategy but help execute it too. "This offers obvious advantages in terms of continuity, security and convenience for the client, as well as giving access at an early stage to the market knowledge and extensive contacts of the bank."

Although the CSG has only recently been formally launched, Mr Newey has been building it up for two years. He is reluctant to name many of the clieots he has acted for in that time, but be says be has done work for his previous employer, Costains, and is now consulting for the Royal Ordnance in the run-up to its flotation later this year.

"The market is mesmerised by quoted companies. But some of the best opportunities are in unquoted companies. You can be more particular, and you can buy part of a company if you want to."

The CSG fits Lazard's broader strategy of standing a little aloof from developments in the financial markets (it is not buying a stockbroker for Big Bang, for example) and concentrating on developing a reputation for independent advice.

Even so, the initiative has beeo greeted with a touch of scepticism elsewhere in the City, partly because it has been tried and dropped before, though partly too, no doubt, out of the rivalry that exists among merchant banks.

Schroders ran a consultancy for several years, believing rather like Lazards that there was a market for good, research-backed advice on strategy. But it found clients resistant to the idea of paying a fee for help which they considered to be part of the merchant bank's basic service.

David Lascelles

Cap Gemini expands with US acquisition

By David Marsh in Paris

CAP GEMINI SOGETI, the biggest French computer services company which is Europe's leading software group, has taken an important step towards strengthening its international activities through acquisition of the consulting division of CGA Computer, the US computer group.

The purchase will roughly double Cap Gemini's activities in the US, which already accounted for roughly 23 per cent of the company's turnover of FFr 2.2bn ($293m) in 1985. As a result of the takeover—for which Cap Gemini at the weekend declined to give any purchase price—Cap Gemini's 1986 turnover should rise to FFr 3bn, split equally between France, the rest of Europe and the US.

Cap Gemini's activities in the US have been built up progressively since 1979. Its business in America will from now on be carried out under the name of CGA—Cap Gemini of America—grouping 1,700 people spread out over 26 branches across the country.

Cap Gemini, which made estimated net profits of FFr 120m last year, 25 per cent up on 1984, was floated on the "second marché" or unlisted section of the Paris stock market last year.

Rules clear way for HK's unified exchange

BY DAVID DODWELL IN HONG KONG

SETTLEMENT THIS weekend of a long standing dispute over the terms under which bank-related stockbrokers will be able to operate on Hong Kong's new unified stock exchange has cleared the way for the fully-compensated exchange to open in March.

The fears of Hong Kong's existing stockbrokers that bank-related brokers might steal a large proportion of their business bave been acknowledged by putting tight controls on tba scope and nature of the dealings of new entrants.

Bank-related brokers will be barred from concluding deals directly, from trading among themselves, and from dealing on their own account as principals.

The restrictions do not apply to the 18-or-so bank-related brokers already operating on one of the territory's four exchanges. The restrictions will also expire after 18 months. Banks which acquire a seat by buying out an existing broker will not be subject to the restrictions.

Hong Kong's Securities Commissioo has also revealed measures aimed at forcing fuller disclosure of share trading by ruling that share deals not transacted through the new exchange will not be protected under the terms of the exchange's compensation fund. At present, the amount of business formally recorded at the end of any trading day can bear little relatioo to the true volume of business because of the habit of a number of the major Londoo-linked brokers of completing deals outside.

In announcing the restrictions on bank-related brokers, the Securities Commissioo stressed its commitment to "the principle of the free market." It noted, bowever, that the move to a oew exchange, the introductioo of a completely new share trading system, and the sudden increased involvement of banks in share dealing "have given rise to genuine fears and concern" among existing members of the stockbroking community.

Mr Ronald Li, chairman of the new exchange, said the restrictions would give small brokers time to settle in to the new system. Around 500 brokers are active on the exchange, with less than 300 doing daily business. The lioo's share of business is dooe by five Loodon-linked brokers, with about three-quarters of daily turnover being accounted for by fewer than 20 compaoies.

Plans for Hoog Koog's unified stock exchange, which will be housed at the bottom of the newly-completed Exchange Square, have been in preparation for more than two years. Full trading is expected to begin late in March, with the official opening planned for October, perhaps to coincide with the visit to Hong Kong of the Queen.

Fermenta closer to control of Pharmacia

FERMENTA, the Swedish bio-technology and pharmaceuticals group, has ensured that it can take majority control of Pharmacia, the country's second largest drugs group, by securing an option to buy a substantial block of shares from Svenska Handelsbanken, writes Kevin Done in Stockholm.

The group, which is seeking to become the driving force in the Swedish bio-technology and pharmaceuticals sector through the takeover of Sonessons and the purchase of a major stake in Pharmacia, announced last week that Volvo and associated companies had agreed to sell shares controlling around 40 per cent of the votes in Pharmacia.

Mr Refaat el-Sayed, chief executive and majority shareholder of Fermenta, said over the weekend that the group bad an option to buy a further stake with some 11-12 per cent of the votes in Pharmacia from Svenska Handelsbanken.

Fermenta also made known over the weekend that it bad assured itself of acquiring a majority of Sonessons.

What level Fermenta moves to in Pharmacia will depend on whether it decides to consolidate the new acquisition, but it appears certain that Pharmacia will be given the role of co-ordinating the pharmaceutical interests in the grouping of companies around Fermenta.

This will include both Leo/Ferrosan, which Fermenta plans to acquire through the takeover of Sonessons, and its Italian pharmaceutical interests within the majority-owned Pierrel group.

Including Pharmacia, the deals announced this week — with a gross worth of SKr 4bn to SKr 5bn—will give the new Fermenta grouping an annual turnover of SKr 8bn ($1bn).

● Mr el-Sayed denied over the weekend Swedish newspaper reports that Fermenta was preparing to bid for Beecham, the British pharmaceutical group.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Citicorp †‡	500	1998	12	(a)	100	CSFB	–
Woodside Fin. Serv. †‡	300	1997	11½	(b)	100	Chase Manhattan	–
Kobe Steel ¶	100	1991	5	(5⅞)	100	Nomura Int.	5.375
Finland ‡	100	1991	5	9½	99½	UBS (Securities)	9.627
Prov. Manitoba ‡	125	1991	5	9¾	100	Wood Gundy	9.750
Ferrovie d. Stato †‡	200	1994	8	(d)	100	IBJ Int.	–
Paccar Fin. Corp. ‡	100	1991	5	9⅛	100¼	Morgan Stanley	9.061
Norsk Hydro ‡	100	1991	5	9½	99¾	SBCI	9.279
UBS Finance ¶‡	300	1993	7	5½	100	UBS (Securities)	5.500
Swedish Export Cr. ‡	100	1993	5.2	9¼	101⅜	Daiwa (Europe)	8.933
Indonesia (e)†‡	300	2001	15	3/16	100	Chase Manhattan	–
Korea Dev. Bk (f)†‡	100	2001	15	⅛	100	BankAmerica	–
New Zealand (g)‡	150	2011	25	9⅞	99¼	Kidder Peabody	9.957
Mutual Benefit ‡	115	1991	3.3	8½	99¾	Salomon Bros.	8.584
Mutual Benefit ‡	194.5	1996	8.2	9⅜	99⅞	Salomon Bros.	9.476
Mutual Benefit ‡	99.7	1998	11.5	9⅝	99⅞	Salomon Bros.	9.701
Mutual Benefit ‡	456	2006	20	0	14½	Salomon Bros.	9.890
Sumitomo Corp. ¶	100	1991	5	(5)	100	Daiwa Europe	*
Chrysler ‡	150	1991	5	9¼	100½	Bque. Paribas Cap. Mkts.	9.218
AUSTRALIAN DOLLARS							
DG Finance ‡	50	1991	5	14	100	DG Bank	14.000
Lbk Schleswig-Holst. ‡	30	1991	5	14⅛	100¼	Orion Royal Bk	14.177
Badische Kom. Lbk ‡	30	1991	5	14¼	100	Deutsche Bk Cap. Mkts	14.250
Fiat Finance ‡	50	1989	3	14½	100¼	Deutsche Bk Cap. Mkts	14.392
IKB ‡	50	1991	5	14¼	100¼	Commerzbank	14.177
Pepsico Cap. Res. ‡	75	1989	3	14⅛	100	Morgan Guaranty	14.125
SWISS FRANCS							
TNT Ltd. ¶	300 max	1998	–	(4⅞)	(100)	Sodific	*
RX Capital (h)§	100	2001	–	(6⅝)	100	Bqe Gutzwiller, Kurz, B.	*
Cantarra Energy **‡	125	1992	–	5⅝	100	Credit Suisse	5.625
Coastal Cp Houston **‡	60	1991	–	6	100¼	Royal Bk Canada (Suisse)	5.941
Tokyo Juki ¶**	40	1991	–	(2⅞)	100	Credit Suisse	*
Japan Elec. Computer **‡	50	1991	–	5⅜	100	Banque Paribas (Suisse)	5.375
Isea Co. **‡	10	1991	–	5½	100	Swiss Volksbank	5.500
Hokkaido Elec. **‡	100	1991	–	5¼	100¼	SBC	5.182
Kyushu Elec.	100	1994	–	(5¼)	100	SBC	*
Nagahori **‡	20	1991	–	5½	100	Handelsbank	5.500
Air Canada ‡	200	Perp.	–	5¾	100	SBC	5.500
Nippon Tel. & Tel. **‡	200	1991	–	4¾	100½	SBC	4.536
Phibro-Salomon ‡	110	1997	–	5⅛	100	Morgan Guar. (Switz)	5.125
LUXEMBOURG FRANCS							
Den norsk Creditbank **	300	1991	4.3	8	*	Bqe. Gen. du Lux.	*
FRENCH FRANCS							
Council of Europe ‡	450	1993	7	10½	100⅜	Société Générale	10.422
YEN							
Chugoku Elec R‡	15bn	1996	10	7⅞	101⅞	Nikko Secs. (Europe)	7.601
Nippon Kokan R‡	20bn	1996	10	8	101	Nomura Int.	7.852
Asea Finance ‡	10bn	1991	5	6½	101⅜	Nomura Int.	6.172
Associated Corp. ‡	10bn	1993	7¾	6⅝	100¼	IBJ Int.	6.578
STERLING							
Halifax Buil. Soc. †‡	200	1996	10	⅛(c)	100	Morgan Grenfell	–
GUILDERS							
Heineken ‡	150	1991	5	6½	100½	ABN	6.380
ECU							
Chrysler Fin. ‡	50	1994	8	9¼	100	Salomon Bros.	9.250
NORWEGIAN KRONER							
City of Oslo ‡	250	1996	7½	10	100¼	Union Bk of Norway	9.928

*Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ⊕ With bond warrants. ‖ Dual currency. (a) 20 bp over 1m Libid. (b) 3m Libor Flat. (d) 6m Libor Flat. (e) 3/16 over 6m Libor. (g) Yankee. (h) Collateralised double convertible. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

Barry Riley looks at Templeton's 40m share offer

Wall St. guru's City debut

ROUGHLY £75M in cash could be raised through next month's offer for sale in London of 40m shares in Templeton, Galbraith & Hansberger, a fund management group headed by 72-year-old Mr John Templeton, who is renowned on Wall Street as an investment guru.

Brokers Cazenove are sponsoring the issue, which will involve the sale of a quarter of the total equity of the company. But of the total 160m shares, 40m will be of "A" shares with five times the voting power, and none of these "A" shares will be sold.

Following the issue, the three principal shareholders will continue to control over 70 per cent of the votes. They are Mr Templeton himself, Mr John Galbraith, vice-chairman, and Mr Tom Hansberger, president and finance director.

Despite his fame in the US and Canada, where most of his funds and investment services are marketed, Mr Templeton is comparatively little-known in the UK. The company has only recently opened an office in London, and today will be holding its first promotional conference aimed at selling fund management services to UK and Continental institutional clients. Mr Templeton will be giving a lunchtime address at this conference.

Nevertheless Mr Templeton has strong personal links with Britain. He was a Rhodes Scholar at Oxford in the 1930s, and has endowed a business school there, Templeton College. And though a native of Tennessee, Mr Templeton moved to the Bahamas in the 1960s and subsequently became a British citizen.

He is a generous benefactor of religious causes, and his Templeton Prize, currently worth £170,000, has been presented annually by the Duke of Edinburgh to recipients ranging from Mother Teresa to Billy Graham.

TGH has a head office in Nassau, and subsidiaries in St Petersburg and Fort Lauderdale, both in Florida. The company itself is registered in the Cayman Islands, and is now to be listed on the London Stock Exchange.

One reason for listing in London rather than the US, where the Templeton funds are much better known, is that the group is now trying to develop its international image. But there also appear to be tax questions which might be aggravated by a US listing.

In fact, Cazenove, the London sponsors, are aware that there might be considerable demand for the shares from US investors. But the issue will not be promoted in the US, and there are no plans for an official American Depositary Receipt facility to be set up in the US subsequent to the flotation—although this would not prevent the appearance of unsponsored ADRs.

TGH manages assets of around £5bn. Profits after tax have risen strongly in the past five years, increasing from £1.9m to an anticipated figure of over £16m in 1985.

There are over 400,000 shareholder accounts in five mutual funds, of which the biggest are Templeton Growth Fund with £936m and Templeton World Fund with £1,708m. It is claimed that a £10,000 investment in the Growth Fund when it was launched in 1954 would have been worth over £1.3m at the end of 1985, assuming the reinvestment of all dividends and capital gains distributed over the period.

About 60 per cent of the assets managed by the group are in the mutual funds. The remainder consists of money managed for pension funds and large private clients.

Mr Templeton is famed on Wall Street for his highly individual contrarian approach to investment. He relies on intensive analysis, an instinct for value and patience. For decades he has been practising global investment, an approach which has only just become fashionable in the US

Mr Templeton is famed on Wall Street for his highly individual "contrarian" approach to investment. He relies on intensive analysis, an instinct for value, and patience. For decades he has been practising global investment, an approach which has only just become fashionable in the US.

He rejects the balanced approach more commonly followed, and will drastically change the shape of his portfolios over a period of time. For instance, in 1973 more than half the Growth Fund was invested in Japanese stocks, but only 3 per cent is invested there now. This, it is said, does not reflect any pessimism about Japan as such, but simply reflects his assessment that there are few bargains to be had on the Tokyo Stock Exchange at present.

Today, Mr Templeton appears to be focusing more heavily on the investment opportunities of the US, just as many American investors are turning overseas. The proportion of his funds invested in the US is now climbing towards 50 per cent.

He developed his individual style while still working in New York, but claims that it has become even more successful since he moved, at the age of 56, to the more rarified atmosphere of Lyford Cay, far from the fads and panics of the New York herd.

The issue will bring a very large increase in the personal wealth available to support Mr Templeton's religious activities, which take up around half his time. None of the proceeds will go back into the business, which has little need for capital, and employs no more than about 200 people.

Klearfold offer for sale gives £6m value

Klearfold, a manufacturer of plastic display packaging, is the latest in a stream of American companies to seek a London listing.

The full details are published today of an offer for sale by Robert Fleming of 5.1m shares at 115p, which values the company at £5.9m.

Nearly 38 per cent of Klearfold's shares are being offered for sale, of which two-thirds are being sold on the company's behalf to raise £2m after expenses. The money will be used to reduce borrowings taken on to finance a new factory.

The company has two major products sold under the names of Klearfold and Duofold, both used for packing consumer goods. Klearfold is a folding box made out of rigid PVC sheet, employing "soft crease" technology, while Duofold, which has the same qualities, is made out of PVC bonded together with cardboard.

The products are currently made in a factory at Warrington but production is expected to begin in a new factory in Virginia in the middle of 1986.

Profits in 1984 were £1.3m, while 1985 profits are estimated at £1.9m pre-tax on sales of £19.6m.

The shares are being sold on an estimated 1985 price earnings multiple of 12, after a 24 per cent tax rate. The forecast dividend yield is 2.77 per cent.

The application list opens on January 18 and dealings start on January 23. Brokers to the issue are L. Messel.

● comment

It seems that today's makers of consumer goods, falling over themselves to distinguish their products, will happily pay over the odds for distinctive, high quality packaging. Klearfold, as the only contender in its field in the US, is making hay — so far its most pressing problem has been shortage of capacity, which should be solved when the new factory comes on stream. The company is fully aware that its unrivalled position will not continue indefinitely, and then margins — currently around 30 per cent — are bound to suffer. Even if its patents do their job properly, competitors are bound eventually to come up with rival techniques. However, this may take several years, and in the meantime Klearfold's continuing r and d should mean its own production techniques go on improving, while the whole market may be growing fast enough to support several producers. Given its prospects, Klearfold is being floated on a modest p/e, perhaps explained by investors' suspicion of American companies which choose to raise money so far from home. Despite the unsteady state of the market, this one should go well.

Strong attack from Plessey

BY CHARLES BATCHELOR

Plessey, which is fighting a £1.2bn takeover bid from General Electric Company will today launch a strong attack on the rival electronics group, arguing that GEC can do nothing for it in the areas of new products, technology and marketing.

The attack will come in Plessey's defence document to its 45,000 British shareholders.

This week sees the GEC/Plessey bid battle move into a higher gear ahead of next Monday's first closing date on the GEC offer.

● Plessey will step up its lobbying of the City with presentations to stockbrokers and institutions aimed at convincing them that it must remain independent as Britain's largest purely electronics company.

● A US federal court in Delaware will rule on Plessey's legal challenge to GEC's treatment of Plessey's 3,000 US shareholders.

● A special GEC shareholders' meeting will be held today to vote on the GEC bid.

Both companies have made detailed presentations to the Office of Fair Trading which will recommend whether or not the bid should be referred to the Monopolies Commission.

A decision from Mr Leon Brittan, the Trade Secretary, could normally be expected by the first closing date, but pressure of work has meant that in several recent bids a decision has been delayed.

Plessey will argue that if it were to be swallowed up by GEC there would be an undue concentration in defence fields such as guided weapons and related electronics where the two companies account for half the market.

GEC believes that electronics mergers overseas mean Britain must have a larger electronics grouping to compete effectively.

It is concerned that a Monopolies reference would create uncertainty about the position of British industry in international projects such as Eureka, the European co-operation programme and the US Strategic Defence Initiative.

Plessey claims to lead GEC in public switching systems, fibre optics transmission systems and in the design of specialised semi-conductors. It views GEC as a sprawling electrical and electronics group with half of its business outside the high-technology area. It claims that GEC wants to use its £1.3bn cash mountain to buy in high-tech expertise it should have been developing itself over the past 20 years.

GEC retorts that while electronics is not its only business its electronics sales of £3.5bn exceed Plessey's total turnover of £1.4bn and its financial performance has been better.

Plessey's counterbid to take control of the System X, the public switching project on which the two companies colaborate, proves Plessey sees the need for a combination in an important part of the electronics area, GEC said.

GEC's offer of 320p cash, one new share and 160p worth of convertible loan stock for every four Plessey shares is worth 163.5p per Plessey share, 8.5p below Plessey's closing price on Friday.

Distillers set to make forecast in bid battle

Distillers, the Scotch whisky company fighting a £1.9bn takeover bid from Argyll Group, is to make a forecast of profits and dividends for the year to March 31 within the next fortnight.

The company promised this at the weekend in a letter to shareholders which additionally said it would be seeking approval before the year end for the introduction of executive and employee share option schemes.

Mr John Connell, Distillers' chairman, also commented on Argyll's plans to sell off most of Distillers' seven properties in the West End of London. Argyll argues that these are a waste of resources. Mr Connell, however, maintained that Argyll wished to sell them to reduce the borrowings entailed in its bid.

● He said Distillers had just had the properties independently valued at £19.98m, a sum which he described as "insignificant" in the context of the £70m expenses Argyll is incurring in its bid, let alone the £600m borrowings it would use to finance a successful takeover.

SHARE STAKES

CHANGES IN company share stakes announced during the past week include

Combined Technology Corporation—Tunnesol has purchased 1.2m shares at 10½p, bringing its holding to 7.2m shares (9.58 per cent).

Cattle's (Holdings)—Mr A. R. Muir, a director, purchased 25,000 ordinary shares at 38p on December 20.

Hargreaves Group—On December 9 directors Mr M. B. L. Buck and Mr M. R. Scott were allotted 30,000 ordinary shares upon the exercise of options. On December 16 each of them sold the 30,000 shares which had been allotted to them.

Sears—Mr H. S. Perlin, a director, acquired 62,500 ordinary shares under an option scheme at 42p of which he sold 46,250 shares at 109.5p.

Goal Petroleum—Mr K. Wetere, director, purchased 5,000 new shares on January 7.

Peerless—Mr G. D. Gahan, an executive director, purchased a further 30,000 ordinary shares on December 23. This now brings the total holding for Mr G. D. and Mrs E. Gahan to 246,000 ordinary.

McCarthy and Stone—Mr J. Gray, a director, has disposed of 13,000 ordinary shares at £2.70 and now holds 7,000 ordinary shares. He has also disposed of his holding of 5,000 7 per cent convertible unsecured loan stock 1999/2004.

Biomechanics International—County Bank have acquired 5.39 per cent of the company's share capital.

Apricot Computers—Mr A. G. Bryan, a director, has disposed of 57,500 shares at 70p and now holds 1,012,315 shares.

Sunleigh Electronics—Mr L. Berg, a director, has disposed of 800,000 shares and now holds 100,000 shares (0.44 per cent).

Mercury Securities—Mr O. M. Lewisohn, a director, sold 30,000 shares at 710p on January 7.

Brown & Tawse—Mr C. C. W. Milne, a director, sold 8,400 ordinary shares at 157p on January 6.

Hazlewood Foods—Mr J. Colinson, a director, sold 6,330 shares at 810p on January 7.

COMPANY NEWS IN BRIEF

HOWARD AND Wyndham has approved the purchase of 900,000 series A convertible preference shares in Circo for $900,000 (£627,000). Each share carries four votes, and the total is convertible into 450,000 shares in Circo common stock. H & W now has shares carrying 67 per cent of the voting rights.

G. M. FIRTH'S subsidiary, Clarkes of Stillington, has paid around £700,000 cash for the steel stockholding business and related trading assets of Charles Wade Steel.

J. N. NICHOLS (Vimto), the soft drinks concern, has acquired International Vending Supplies, a manufacturer and supplier of ingredients for drink vending machines, which also markets product under the Freshers brand name. The consideration is at least £999,920, of which £799,920 will be paid in cash and the balance in shares, but the total may rise according to a profit linked agreement.

The following securities have been added to the Share Information Services:

Continental Assets Trust (Warrants) (Section: Investment Trusts)

Julia Mines NL (Mines—Australian)

Lees (John J.) (Food, Groceries)

Metsec (Industrials)

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims—Armour Trust, First Security, Fleming Claverhouse Investment Trust, Palmerston Investment Trust, Peters (Jewellers).

Finals—Sundance Investments, Jersey Electricity, London Scottish Finance.

FUTURE DATES

Interims—
AGS Research .... Jan 21
Applied Holographics .... Jan 14
Newmark (Louis) .... Jan 23

Finals—
Berkeley Technology .... Jan 27

FINANCIAL TIMES STOCK INDICES

	Jan. 10	Jan. 9	Jan. 8	Jan. 7	Jan. 6	Jan. 3	1985/86 High	1985/86 Low	Since Compilation High	Since Compilation Low
Government Secs.	81.46	81.19	81.66	81.79	82.15	82.51	84.57	78.02	127.4	49.18
Fixed Interest	87.67	87.56	87.98	88.15	88.51	88.73	90.38	82.17	160.4	50.53
Ordinary	1119.8	1106.1	1123.8	1165.6	1141.8	1149.8	1140.6	911.0	1149.6	49.4
Gold Mines	296.4	280.3	285.8	277.2	287.4	297.6	556.5	237.9	734.7	43.5
FT-Act All Share	674.97	669.26	680.04	685.36	689.56	690.80	702.06	581.88	702.06	61.90
FT-SE100	1394.5	1379.6	1404.2	1415.6	1424.1	1429.6	1455.5	1206.1	1455.5	986.9

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
180	F.P.	15/1	230	195	Abbott Mead Vickers	225	+3	bg2.8	3.5	1.8	22.9
135	F.P.	9/1	196	174	Ashley (Laura) 5p	175	+2	bg1.88	3.1	1.5	30.0
587	300	7/3	310	295	Cable & Wireless 50p	295	−2	F9.5	2.9	4.6	8.4
§63	F.P.	26/1	70	66	‡Chancery Securities	68	+1	bg2.2	2.5	4.6	18.5
§85	F.P.	10/1	88	85	‡Chart. Foulks Lynch	88	—	bg3.0	1.9	4.9	15.4
130	F.P.	24/1	130	120	Chetwynd Streets 5p	125	+5	b4.11	3.5	5.7	15.8
§95	F.P.	17/1	100	93	‡Cranswick Mill 10p	95	—	bg5.32	2.2	7.8	6.5
§74	F.P.	6/1	86	71	‡Crusts 5p	77	−1	bg0.7	9.6	1.3	8.3
§128	F.P.	10/1	155	130	‡Dialene	153	−2	u4.9	2.5	6.3	8.7
100	50	26/2	55	49	German Sec. Inv. £1†	53	—	—	—	—	—
§56	F.P.	31/1	65	59½	‡Granyte Surface 10p	60	—	b2.1	2.6	5.0	10.0
§57	F.P.	11/12	67	58	‡Hampden Home 10p	58	—	bg1.5	2.6	3.7	14.9
§75	F.P.	—	80	73	Intl. Bus. Comms 10p	76	−1	‡N2.25	—	4.4	—
—	F.P.	—	175	100	Intl. Inv. Tst. J'rsy wts	175	—	—	—	—	—
§160	F.P.	13/1	270	170	‡J S Pathology 10p	255	+5	bg3.5	2.7	2.0	23.7
§120	F.P.	10/1	125	119	‡Jacques Vert 10p	116	−3	bg5.6	1.9	6.6	11.1
115	F.P.	7/2	125	116	Lexicon Inc. $0.01	113	−3	uQ3.46	3.9	2.0	12.7
115	F.P.	31/1	127	122	Merivale Moore 5p	125	—	b2.5	4.0	2.9	12.3
§160	F.P.	20/12	170	165	‡Millward Brown	170	—	bg2.5	3.5	2.1	19.8
§77	F.P.	10/1	82	78	‡Monks & Crane 10p	82	—	bg2.7	2.7	4.7	11.5
§90	F.P.	22/1	104	92	‡Norank Systems 5p	93	−1	bg3.0	2.4	4.6	12.9
100	F.P.	9/1	119	106	SAC Intnl. 10p	115	−4	b1.5	3.8	1.9	18.9
125	F.P.	16/12	155	126	SPP 10p	152	—	bg4.75	2.3	4.5	13.8
§101	F.P.	14/2	107	93	‡Sigmex Intl.	93	−5	uo63	19.5	0.8	6.7
§97	F.P.	10/1	106	97	‡Snowdon & Bridge	97	−1	bg2.75	3.0	4.1	11.9
§57	F.P.	6/1	74	65	‡SterlingPublish'g 5p	72	—	b2.0	1.9	4.0	16.9
¶¶	F.P.	—	311	277	Storehouse 10p	288	—	u5.7	2.5	2.8	17.9
§115	F.P.	20/12	128	119	‡TMD Advertising 6p	122	—	ug1.65	3.5	1.9	22.1
§130	F.P.	10/1	215	167	‡Tech. Compt. Inds.	213	—	bg3.0	6.6	6.0	27.1
§90	F.P.	—	105	85	‡WYorks.Ind.Hos.50p	85	—	b4.0	1.8	6.7	11.5

For Barham Group see Paper, Printing

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price £	+ or −
97.203	£25	4/4	24⅝	22⅛	Allied Lon.Props.10½%1stMort.Deb.2025	22⅛	−⅛
**	F.P.	17/1	101	100	Brit. Assets 6% Uns. Ln. 1995	101	—
§98.787	F.P.	31/1	98¼	97½	Ests. & Agency 11¼% 1st Mort. Db. 2020	97½	—
§99.748	£25	—	24⅞	24⅝	First Scot. Am. 11½% Deb. 2015	24⅞	+⅛
£12*	F.P.	—	116½p	87p	Intl. Inv. Tst. Jersey 13% Cum. Red. Pf	90p	—
—	F.P.	—	99½	98¾	Nationwide Bldg. Soc. 11⅛% 15/12/86	99⅛	+⅛
—	F.P.	—	99¼	99⅛	Do. 12% 12/1/87	99¼	+⅛
§99.515	£40	26/2	40¼	37¼	Rosehaugh Greycoat 11%1st Mt Db 2014	37½	+⅛
§99.706	£40	28/2	40⅛	38⅛	T. T. Finance 11⅛% Gtd. Deb. 2015	38⅛	—

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1985/6 High	1985/6 Low	Stock	Closing price	+ or −
$A3.75	Nil	01/2	40pm	27pm	ANZ $A1	40pm	—
110	F.P.	26/2	121	115	Barham Group 6½p	114	+1
32	Nil	21/2	10pm	17pm	Goal Petroleum 5p	19pm	+2
68	F.P.	24/1	71	68	Hartwells	68	−2
240	Nil	01/2	40pm	29pm	Hogg Robinson	29pm	−4
15	Nil	—	1½pm	1pm	‡Imtec 10p	1pm	−½
120	Nil	28/1	125	110	‡Ind. Scot. Energy £1	110	—
260	F.P.	01/1	294	288	Lovell (Y. J.)	292	+2
475	F.P.	31/1	550	510	Mountleigh	530	—
365	Nil	—	50pm	40pm	Peel Hldgs.	40pm	−5
155	F.P.	28/2	172pm	164pm	Smith Bros.	164	—
15	Nil	—	3½pm	3pm	Stormgard 10p	3pm	—
70	Nil	—	14pm	13pm	Triplex	14pm	—
52	Nil	—	59pm	45pm	Unigroup 15p	45pm	−2

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1986. t Indicated dividends: cover relates to previous dividend: p/e ratio based on latest annual earnings. u Forecast otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ‖‖ Allotment price. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (a). t Units comprising five ordinary and one warrant. * Units comprising 12 preference shares and one warrant, at £12 per unit.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Berisford (S. and W.)	Jan 17	Final 7.0
Birmid Qualcast	Feb 14	Final 2.59
Daejan	Jan 29	Interim 6.0
Dalgety	Feb 11	Interim 11.0
*Davy Cpn	Jan 15	Interim 1.1
*Dixons	Jan 15	Interim 1.92
*Dowty	Jan 16	Interim 2.2
*First National Finance	Jan 23	Final due
Fitch Lovell	Jan 24	Interim 3.0
*Gestetner	Jan 15	Final 1.171
Gold Flds SA	Feb 5	Interim 40c
*Guinness (A.)	Jan 14	Final 4.62
Guinness Peat	Jan 9	Final 0.8
Imperial Group	Feb 14	Final 5.55
*Lloyds Bank	Feb 28	Final 17.0
Lonrho	Jan 31	Final 6.5
*Magnet and Southerns	Jan 15	Interim 2.0
Mercantile House	Jan 22	Interim 4.0
Notts Manufg.	Feb 11	Final 5.1
*Racal Electronics	Jan 28	Interim 0.7685
Rank Organisation	Jan 29	Final 7.2
*Ratners	Jan 13	Interim 0.57
Securicor	Feb 13	Final 1.1
*Stead and Simpson	Jan 14	Interim 2.0
*Thorn EMI	Jan 19	Interim 6.0
*Trusthouse Forte	Jan 15	Final 3.615
*Union Discount	Jan 28	Final 26.0
Wagon Finance	Feb 14	Final 2.5

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

Motor accessories

Geared up for a revolution

John Griffiths reports on the enthusiasm with which Halfords, the specialist UK retailer, is launching into superstores

Roger Pedder: "a substantial business opportunity"

THE CONCEPT of hypermarkets, which has been enthusiastically embraced in the UK in recent years by such retail groups as J. Sainsbury in food retailing and B & Q in Do-It-Yourself, is beginning to be adopted with equal vigour by yet another sector — motor accessories and maintenance.

The most active player is Halfords, the long-established High Street specialist motor and cycle parts retailer. Its initial assault on the UK's £3.2bn-a-year car parts and servicing sector using the hypermarket approach has been judged a success, and it now intends a have nearly 40 such stores in operation by the end of this year.

Plans originally laid envisaged an eventual national network of 100 such outlets, involving an average investment of £1m. But now, "we simply do not know the ultimate capability," according to Roger Pedder, chief executive of Ward White Retail UK, the retailing group which bought Halfords from Burmah in 1984.

More than a dozen such "superstores," averaging 10,000 square feet and open seven days a week, are now operating in an area stretching from Liverpool in the north to Swansea, in South Wales.

B and Q, the Woolworth-owned home improvement and DIY group, has also opened the first handful of what it sees as a 100-strong chain of similar motorists' "superstores." And with Unipart, BL's parts and accessories division, exploring the same concept at a pilot site near Coventry, the stage is being set for a major intensification of competition this year in a market which, though very large, is static in value terms and is forecast to decline.

"It took just over 12 months to conclude that the concept is successful and to decide to replicate it," says Pedder, Halfords' chief executive until his promotion at the end of last year.

He says Halfords is unconcerned that longer car life, better component reliability and other factors mean there is no prospect of overall growth in the market for the foreseeable future: "We are still taking the view that here is a substantial business opportunity. It's a major market, but suffering from being very fragmented with thousands of small operators. And when you're talking about a £3.2bn market you don't worry about decline."

Pedder, 44, freely admits that "I know nothing about the motor industry — I'm a retailer."

But Halfords had had no difficulty concluding that the parts, accessories and servicing sector "needs professionalising . . ." says Pedder: "It's not just a question of fragmentation. From the consumer's point of view there's a lot of technical "mystique" about the business which isn't really justified, but as a result of which the customer has been made to feel subordinate."

Customers can watch mechanics carry out servicing at Halfords' "hypermarket" style service centres

The approach taken with the "superstores," particularly their car servicing operations, has already induced "cultural shock" among customers, says Pedder. This is because they are unused to being offered servicing "on the spot," at fixed prices, and to being able to watch or talk with the mechanic servicing the car.

Servicing, however, forms only part of the concept, which aims to bring one-stop shopping for motorists at out-of-town sites chosen according to a basic criterion that there must exist a car population of 30,000 within three miles.

Thus the centres are stocking some 6,000 lines, including engines, gearboxes and body panels, while a computerised "all makers" parts supply line has been set up from Edmunds Walker, the distribution group acquired last year by Unipart. With the centres open 12 hours a day and on Sundays, and geared to high turnover at low margins, the challenge to the UK's traditional garage and retail aftermarket trade is unequivocal.

But, says Pedder, "the traditional trade does not appear to have reacted much," even though Halfords could be seen as laying itself open to the charge of seeking to cream off profitable fast-moving business and leaving garages to carry the high overheads associated with their obligations to car manufacturers to provide complex maintenance and repair facilities, and slow-moving parts.

It is a charge which Pedder shrugs off, indicating that the traditional trade in the past has been quite happy to squeeze maximum margins even out of fast-moving business.

How the garage trade copes with the new forms of competition, he makes clear, is its own affair. But Halfords is out for as large a slice of six-and 12-month servicing, pre-MoT checks, lubricating, tyre fitting and other routine business as it can get.

With its "superstores"—seen as complementary to the 360 High Street Halfords stores which are also undergoing a £16m overhaul—the company sees as its target (beyond its own service operations) four distinct types of DIY customer:

"Enhancers," or enthusiasts of bolted-on extras; basic DIY servicers; the "repair-able," capable of carrying out some repair operations; and vehicle experts.

It is this spread of customer types which explains Halfords' decision to stock even such high-value, complex parts as engines, together with what Pedder sees as significant social differences between usage of its High Street and superstore outlets.

For example, he explains, whereas 31 per cent of Halford's High Street branches' turnover is realised in November and December, these two months have accounted for only 20 per cent of superstore business.

Further, it is finding that the superstores are being used much more in the evenings, and that on average each customer is spending twice as long, and twice as much, as at a High Street branch. The outline conclusion from these observations—That whereas the High Street outlets are very much utility operations, there exists "a strong recreational element" in the use of the superstores, encouraging Halfords to believe it can attract virtually all types of DIY customer.

Its current turnover is made up 38 per cent of accessories, 22 per cent replacement parts, 20 per cent car care products like polishes, 12 per cent tools and 8 per cent lubricants. That compares with a national breakdown of 23 per cent accessories, 46 per cent replacement parts, 7 per cent car care, 17 per cent tools and 12 per cent lubricants.

With virtually all aftermarket commodities under one roof (and adequate adjacent parking) Halfords clearly believes it can fill up some of those current troughs in the sales spread compared with the national figures.

Between the superstores and the revamped High Street outlets, Pedder says, it should be possible for Halfords to lift its share of the total market from 7 per cent to 12 per cent or more over five years.

He insists the superstores have enhanced, not undermined, High Street business. He attributes this to "our visibility overall having become very much higher," to the superstores having become a local talking point, and at the same time to the overhaul of the High Street outlets.

A basic question must be, however, whether there is room for both Halfords and B & Q to achieve their ambitious "superstore" goals, particularly if Unipart, the biggest aftermarket operator (but not so far involved in direct retailing) embarks on the same concept. And if there isn't, who gives ground?

Pedder replies by pointing to the DIY home improvements sector. "You've got three really big majors in that, companies like Texas Homecare, and 13 second-ranked ones. And the automotive sector is bigger . . ."

Potential victims, on this assessment, are likely to include garages, and small independent retailers unable to match the chains' purchasing muscle.

There are opposed views. Gordon Spice, eponymous chairman of what claims to be the largest independent wholesaler in the aftermarket, is one who insists that cheap prices and long opening hours won't necessarily compensate for the reassurance and advice available from the small, expert retailer.

Both types, however, could conceivably share in some growth, even if the total market is static. For Pedder sees the share taken by DIY business continuing to grow.

That manufacturers themselves are increasingly fitting such items, far from squeezing out aftermarket operators, is actually helping them, he observes, because owners of used cars will want "look-alike" equipment. For example, he says, "BMW's 3 series saloons are replacing the Ford Cortina as the model used-car owners most want to 'enhance'."

Despite wide speculation that new cars themselves in the future may be "hypermarketed," Pedder firmly rules this out. Yes, he concedes, Halfords has explored the idea. But until, and if, the day arrives that cars of "reliability allows their sale a la white goods, it's strictly a non-starter . . ."

Hanchos and Gruppenleiter

Nick Garnett offers a guided tour through the intricacies of Japanese and West German shop floor authority structures

THE TENTACLES of manufacturing management in Japan reacb mucb deeper than the popular perception of self-supervision might suggest. In e Japanese car plant the ratio of workers with shopfloor supervisory functions to ordinary line personnel can be as much as eight to 10 times greatar than in a West German one.

This density of supervision mesns that self regulation on the Japanese shop floor does not involve the withdrawal of management from the shopfloor but that management bas actually "taken root" there.

This is one of the conclusinns of a comparative study by the Science Centre, West Berlin, carried out to determine wbo communicates with whom and the relationship between management and unioo structures in the body and assembly shops as two such car plants.

The authors, Ulrich Jurgens and Hans-Peter Strömel, qualify their report by warning that the differences in supervision density are somewbat exaggerated because the German plant is much larger than its Japanese counterpart. They say though that the overall comperison is valid for the Japanese and German motor indnstries.

Several other features ere underlined in the Berlin study. Though the separate shopfloor working groups ere the normal arena for solving problems on the Jepanese shopfloor the foreman retains management powers unrivalled by almost everyone in the plant.

Tbe division of the shopfloor into work teams on the normal Japanese model does not erode his euthority. In fact the management and union structure actively supports bis power.

As is well known, the structure of management and the company union are completely intertwined in hig Japanese manufacturing companies and in the Jepanese car plant under study the general foreman is the backbone of the union structure. "The comhined identity of supervisor and union representative," says the report, "ties together the union and mansgement communication channels."

The study also says in effect thet complaints from or worries of e production line worker are deliberately bottled up within the working group for it to be sorted out there. In the German (and most European) structures there is far more opportunity to process a complaint upwards.

The ratio of supervision in the Japanese plant is about 1 to 3.4 workers for both body and assembly. In the German case it is 1 to 25 (body) and 1 to 33 (assembly).

Shopfloor supervision in the German plant is in the hands of a general foreman (meister) and foreman (vizemeister) with normally two foremen to every nne general foreman.

By contrast the Japanese plant has four or five levels of supervision starting at the lowest level with e "hancho" or team leader—one teem leader generally for every six workers. This level of supervision is completely missing in the German (and most nther European) car piants except for the machine shops and metal press sections which use a similar figure known as a Gruppenleiter.

Mobilising

Above the team leader is en assistant foreman (again with no equivalent in the German plant) who advises tbe foremsn, covers in his absence and is partly responsible for smooth production and quality control.

The most important man on the line, though, is the foreman in eharge of manpower allocation, channelling informstion to the shopfloor, and other matters. Hia job descriptioo eard which he must carry with him at all times says "only through the foremao is the will of the compeny realised." Tbis role is very similar to thet of the Germen general foremen.

But again in the Japanese plant there is a further tier of general foreman (with deputies) which handles the issues that have failed to be sorted out in the work groups on the line.

Not surprisingly, the job description of the Japenese foreman refers to a "human relations" style of leadership—mobilising workers' energies, noting problems in their private lives, sbowing interest in the individual as a sonrce of trust.

The Germen foreman's tasks read more like an administrative check list—instructing employees on their tasks, on accident risks and work changes, verifying attendsnce and issuing leeve slips. "In fact there are many complaints about the edministrative overload for the meister et day to day work and that there is no time for the buman touch," the report says.

The density of supervision in the Jepanese plant obviously means there are more promotion opportunities for ordinary line workers, though the report does not go into this aspect.

The use of an in-house union structure virtually grafted onto the management hierarchy, and in which both have the same arees of territory, clearly has many benefits for tbe company.

The study points out that in the German plant the speed at which information is passed down through the union structure is often faster than thet through the manegement structure, leaving the foreman to pick up the information as best he can. It is synchronised in the Japanese plant, reinforcing the authority of the foreman who in eny case is a member of the same company union.

Such management-union systems are culturally unacceptable in most lerge European plants and the Berlin report elso appears to question wbether they always work for the benefit of an ordinary Japanese lineman.

In the German plent there are far more opportunities for an individual to bring up a compleint end heve it pursued up the management hierarchy. The decision of lower level supervisors might then get overturned.

"In the Japanese case, the very much intertwined character of union and management positions on the shop floor bas the effect thet the first level supervisors are nearly unassaileble. The system seems to work without the safety valves for dissenting views and demands of the individnals. Maybe the group's function as a family serves as en equivalent."

One case in the report underlines bow the union aod management interplay can work, and not necessarily for the benefit of an iodividual. A senior union officiel told the authors quite openly that the union did not like workers trying to process a compleint through the formal structure in the plant. "If there are many complaints in one foreman's area it might be an indicator that he is not e good foreman and that sbonld show up in his personal assessment."

TECHNOLOGY

Geoffrey Charlish on a $1.8m scheme to help establish computer integrated manufacturing

Xerox reveals its designs on factory of the future

RANK XEROX is spending $1.8m (£1.25m) during 1985-86 on a 20-workstation computer-aided mechanical design facility that will form a key element in a five-year plan to establish computer integrated manufacturing throughout the corporation. It is one of the biggest computerised design facilities in tha UK.

The Welwyn Garden City company is the international design centre for Xerox mid-range office copiers (30 to 65 copies/min). There are already several similar design units in the US for smaller copiers and for the big high-throughput machines. They are all based on Intergraph computer-aided design, engineering and manufacturing (CAD/CAE/CAM) equipment.

Xerox is one of Intergraph's biggest customers, although it uses design equipment from several other companies. Computervision, for example, supplies systems for the design of tha electronic circuit boards used in the copiers.

IBM, Intergraph, and Computervision ere now the three top suppliers of this kind of equipment, with 21.4 per cent, 15 per cent and 12.4 per cent respectively of the $3.5bn world market, according to Daratech, tha Cambridge (Massachusetts) market research company.

Xerox is one of the small but growing number of large companies making plans for computer integrated manufacturing (CIM), in which the store of geometric information (database), built up about a product during tha CAD process, can be expanded and used to support other computer-based shop floor and factory office activities.

Comprehensive product data, once obtained, can be applied to new software that will drive machine tools, determine the motions of robots, work out material quantities in conjunction with sales ordering computers. The list is considerable.

CIM is a philosophy that is easy to describe but more difficult to implement.

The objective is to produce high quality, low-cost goods more often

Mr Jim Norton, a Xerox CIM expert, based in the US, who is setting up the UK system, says training and a realignment of staff attitudes is paramount in implemanting CIM. He thinks the "multi-functional" engineer will become essential, breaking down the traditional demarcations and barriers between design, manufacturing and service engineers.

He believes this versatility is nne of Japan's important advantages. But whereas the Japanese have developed it culturally, he thinks the West should be able to produce the same result via the CIM common engineering database.

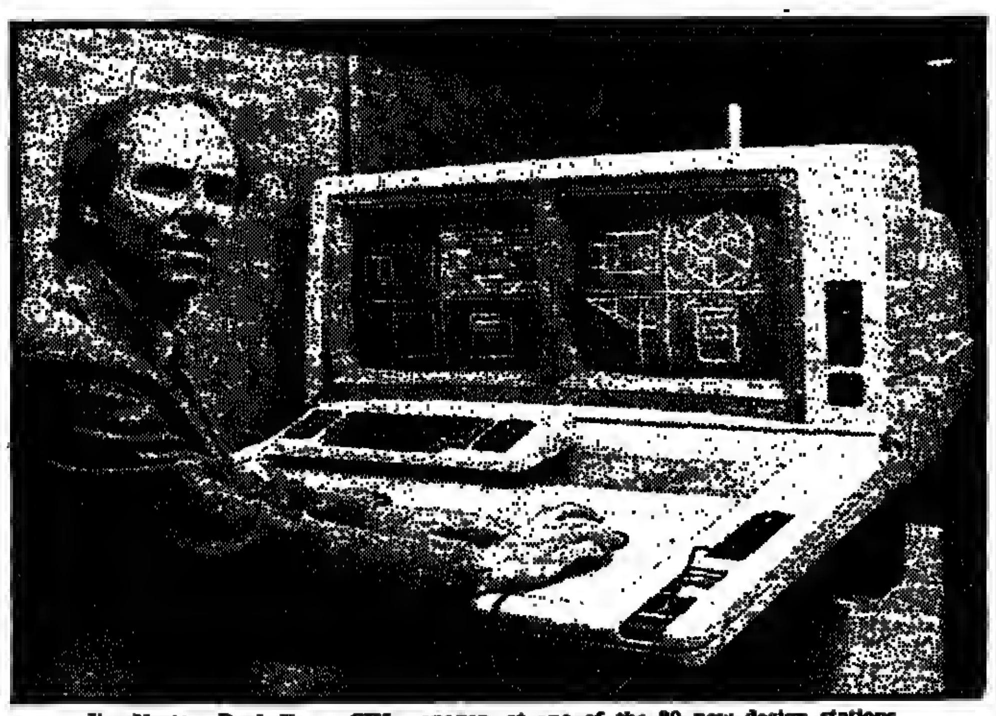
The overriding objectives are to produce higher quality, lower cost new products more frequently and get them to market in the shortest possible time. "Compartmentalised" engineering is not belpful.

In the UK now, the Intergraph installation is mainly concerned with design and engineering, based on 3D coloured surface modelling of the copier components and sub-assemblies.

The plan is to follow the US and gradually embrace other functions with communicating terminals working over an Ethernet local area network (LAN). Already engineering information is directly useable by maunfacturing staff on terminals.

As the engineering database grows, the manufacturing and field service functions are becoming involved. One project is looking at the use of the terminals to simulate customer training programs so that they are fully optimised before being put to use.

In addition, Rank Xerox is baving discussions with some of its customers to encourage them to use competible CAD systems that will be able to communicate with Welwyn Garden City over high-speed telecom links.



Jim Norton, Rank Xerox CIM manager, at one of the 20 new design stations

Such an approach could be particularly beneficial because 85 to 90 per cent of the copier parts are made by outside suppliers.

A further step, being examined in the US, is to use the system to provide data to robot assembly cells. The software would be introduced into Europe in due course.

The availability of a design system with full colour surface modelling and frame-by-frama animation software has allowed Xerox software experts in the US to simulate some of the problems particularly associated with copiers.

For example, the behaviour of paper bandling systems is notoriously dependent on the quality end condition of the peper itself.

Xerox is developing programs that will sllow the passage uf the paper through the machine to be seen on tha screen, complete with the variations produced by altering such peper characteristics as weight, tension strength and water content. The software is ebout to be introduced in the UK.

But the Welwyn unit is not paperless yet. A big Versatec plotter produces drewings from the Intergraph system, mainly for use by suppliers. "Unfortunetely," says Mr Norton, "drawings are still seen as a product of engineering in many parts of industry."

Asked about Xerox's financial justification for the project, Mr Norton replies: "The justification is strategic. We know the future is in CIM."

To some extent the Xerox plan is a response to the blows it began to suffer et the bands of the Japanese copier industry several years ago. One corporete response, however, was to make copiers in Japan (Fuji-Xerox) and ironically, perbaps, that is Norton's next port of call.

Roche set for tests on malaria vaccine

HOFFMANN-LA ROCHE, the Swiss-based pharmaceuticals group, is planning to start human testing of a malaria vaceine in the spring after promising results in animal experimentation.

No vaccines are available for the disease, which is said to threaten about 600m people throughont the world and to be growing in virulence. Research has been done by such firms as Burroughs, Wellcome and Smith Kline French as well as Roche.

Roche has announced it is to co-operate with New York University over a malaria vaccine. It is already running similar programmes with Geneva and Edinburgh Universities and the World Health Organisation.

Most of Roche's work so far has centred on the Sporozoite stages of the parasite, the initial form in which malaria occurs in humans. Professors Ruth and Victor Nussenzweig of New York University have isolated and described the surface antigens in the Sporozoite phase.

Roche's efforts in gene technology will result in the preparation of the first trial vaccine against Sporozoite antigens. At the same time, scientists in Basle are engaged in identifying certain antigens from other stages in the parasites' life-cycle to build into a polyvalent vaccine in the next few years. The advantages of a multiple product of this kind would lie in its broader protection and the opportunity given to interrupt transmission of the disease.

Roche says vaccines will be used initially to complement existing medication as a prophylaxis against malaria. Although a vaccination programme is more effective in affected areas, this would call for considerable organisation. In this connection, Roche hopes to plan a vaccination infrastructure with the WHO.

JOHN WICKS
IN BASLE

Omnistar, the longer-lasting satellite, awaits the go-ahead

Peter Marsh on an earth-mapping satellite that could be built to be repaired in space

THE next US earth-mapping satellite could be built to receive ettention while in orbit from space repair workers, thus ensuring a much longer life.

Eosat, a company in Lanham, Maryland, which operates the US Landsat earth-observation satellites, is seeking Government approval for the spacecraft, which it would launch in 1988.

Under Eoset's plan, the $106m (£73m) vehicle, built to a design by RCA, and called Omnistar, would stay in orbit for between 15 and 20 years. That compares with a lifetime of between two and four years of most previous Landsat satellites, of which five have been launched since 1972.

Omnistar would be lifted into orbit in the cargo bay of a space shuttle. It would have room for about a dozen sensors similar to cameras that observe the earth.

Astronauts on subsequent shuttle flights could replece the sensors when they became defective or when more sensitive instruments were available. The shuttle would have to manouvre into position close to tha satellite, which would be in an orbit between 500 km and 700 km above the earth.

As a further step, the space workers could periodically cbange the batteries on earth-mapping vehicles which normally wear out in a few years.

The batteries are an essential part of such spacecraft, which fly in a circular orbit over the North and South poles. While the satellites are in view of the sun, they receive energy from solar panels which turn optical radiation into electricity.

The batteries, meanwhile, enter operation wban the satellites pass into the earth's shadow. The rapid day/night cycles puts strain on battery components and makes them defective. A typical sequence is an hour of light followed by 30 minutes of darkness.

Mr Charles Williams, Eosat's president, says the new strategy could cut operating costs dramatically, by $280m over 20 years. This would be as a result both of redneed need to build spacecraft and of lower costs in launching objects into orbit.

Instead of having to pay the National Aeronautics and Space Administration about $50m every few years to take a complete satellite into orbit, Eosat would periodically have to invest e much smaller sum, perbaps $12m, in sending a repair worker into space.

On severel recent occasions, Nasa astronants on shuttle flights have repaired satellites. The Eosat strategy would be an extension of this.

Apart from reduced operating costs, an added advantage would be the satellite providing continuity of data. Usually, after Landsat satellite wears out, several months elapse befora e replacement is in service.

This can mean customers are unable to obtain pictnres of a specific part of the earth at a crucial time.

For instance, an agriculture organisation may not be able to obtain information about a wheat-growing area when the crop is ripening.

The National Oceanic and Atmospberic Administration, the government body responsible for Landsat, is considering Eosat's plan, which would replace the scheduled launch of two conventional spacecraft in 1988 and 1990.

The administration, which is providing Eosat with $250m over the next five years for new spacecraft, is due to decide on the scheme by the end of the month.

Agreement on optical data disks

OPTIMEM, the Xerox subsidiary, and 3M Company have agreed to develop the recording media and hardware needed to bring e multi-function 5.25 in optical data disk system into volume production within two years.

To date, most of the announcements about optical recording beve been ebout one of three types of product.

The earliest stems from the video disks and audio compact disks which are pre-recorded at the factory and replayed. They have their data equivalant for supplying, for example, computer programs to users.

The second type uses write-once, non-erasible material, which Thomson CSF, Philips, Toshiba, Sony, Matsushita and others bave announced. More recently, erasible materials have been revealed.

The new system will be able to deal with all three eutomatically. Optimem has agreed to develop a drive able to read and/or write the 3M erasible optical medium as well as write-once and pre-recorded disks. At the sama time, 3M bas undertaken to supply appropriate media.

Mr Derek Cook, European general manager of Optimem, says desktop computer designers are strongly supporting the idea.

Blade changing clamp launched

A NEW type of clamping device for bandsaws should make it more difficult for operators to cut themselves while replacing hlades.

Addison, a London-based company which sells the device, claims that with the mechanism one person can safely change a sawblade without assistance.

The neoprene-faced clamp, mounted next to the saw's handwheel, holds the blade in place, leaving the operator free to align it on the driven wheel at the other end of the machine.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

هكذا من الأصل

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Nov.	June	Metal Closures	138	16.9	6.7	1.0	6.9	8.6
—		Metal Sciences 2½p	6½	—	—	—	—	—
—p		Metsec 10p	72	—	bg2.46	2.4	4.9	12.1
July	Jan	Midland Marts	90	25.11	4.0	2.1	6.3	10.8
Jan	May	Mitchell Cotts	67	25.11	4.25	2.0	9.1	(6.8)
Jan.	July	Morgan Crucible	222	11.11	†8.0	1.6	5.1	15.4
May		Morris (W) F.A. 20p	19	—	g0.5	♦	3.8	♦
Jan.	Aug.	Moss (Robt.) 10p	107	25.11	†3.0	2.7	4.0	11.3
July		Myson Grp 10p	69	25.11	g2.5	3.4	5.2	13.1
Nov	June	NMW Computers	280	14.10	†h4.8	2.7	2.4	21.3
Mar.	Sept.	Nash Inds.	30	14.1	0.5	—	2.4	—
—		Neil & Spencer 10p	28	9'81	♦	—	—	5.4
Jan	July	Newman Inds 10p	53	14.10	20.3	—	1.3	(15.6)
April	Dec	Nolton	50	11.11	0.95	2.6	2.7	7.1
Jan.	Aug.	Norcros	198xd	23.12	18.6	2.0	6.2	10.8
Oct.	April	Nu-Swift 5p	49	14.10	†3.0	1.9	8.7	7.9
Feb.	Aug.	Oakwood Grp.	82	15.7	†d4.5	1.4	7.8	(12.1)
Dec	July	Office & Elect	223	28.10	17.5	2.6	4.8	11.4
October		Oldacre 20p	78	12.8	†4.0	2.6	7.5	6.8
—		Optometrics $0.01	34	—	m0.2c	—	4.6	—
May	Nov	Oriflame £1	525	30.9	†23.4	1.0	4.3	12.4
Jan.	June	Ovenstone 12½c	9	25.11	g03.23c	1.9	9.2	5.7
May	Nov.	Ozalid 9pc Cnv 87-92	£254	15.4	Q9%	—	—	—
December		PCT Grp 10p	100	25.11	3.2	1.2	6.7	(24.6)
April		PLM 'B' Sk 25	958	3.4	Q21.6%	2.9	5.2	6.7
June		PSM Intl	116	11.11	†d5.25	2.5	6.5	8.0
—		Pacer Systems $0.01	185	—	bg3.84c	—	1.6	—
Apr.	Dec.	Pacific Sales 10p	65	16.9	3.0	2.1	6.6	8.5
May	Nov	Park Place 10p	236	30.9	6.25	1.9	3.8	19.8
Apr	Nov	Parker Knoll 'A'	250	30.9	9.5	2.9	5.4	9.1
February		Parkfield Group 5p	298xd	23.12	12.4	2.4	1.6	34.8
—		Pavion Intl	50	—	—	—	—	—
Aug.	Feb.	Do 11pc CnLn '94-02	£125	7.1	Q11%	—	f9.1	—
June	Nov	Pearson	415	16.9	†d8.5	3.0	2.9	14.8
—		Peek Holdings	72	—	—	—	—	—
Mar	Oct	Peerless	89	16.9	6.3	—	10.1	—
July	Nov	Pentland 10p	295	2.9	m0.87	20.4	0.4	13.2
		For Pentos see Drapery and Stores						
October		Phillips Patents	63	2.9	†1.25	—	2.6	—
May	Dec.	Photo-Me	800	14.10	5.08	7.7	0.9	18.1
Feb.	Aug.	Pilkington Br. £1	320xd	23.12	12.5	3.5	5.4	8.1

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

Dividends Paid		Stock	Price	Last xd
Jan	April	LWT	263	25.11
—		Leisure Inv 10p	32	—
Jan	July	Leisuretime Int 10p	58	12.8
—		Lowndes	103	—
14.2		Media Tech Int 20p	187	16.9
Apr.	Dec.	Medminster 10p	170	25.11
Oct	May	Miss World 10p	145	2.9
May		Nationwide Leisure	65½	16.9
—		Mumsie Int 20c	14	—
July		Owners Abroad	23½	29.4
—		Photax (Lon.)	46	4'82
April		P'dilly Radio NV 5p	28½	12.8
December		Pineapple Dnc St 10p	58	24.12
Sept.	Apr.	Pleasurama 5p	283	2.9
Sept.	Mar.	Do. 7pcCvCnRedPf.	136	12.8
May		Pres Entertain 50p.	92	14.10
Feb-July		Radio City 'A' NV	18	30.12
Jan	July	Radio Clyde N/V	35xd	23.12
—		Riley Leisure 10p	53	3'84
Apr.	Nov.	Saga Hols. 20p	197	12.8
Apr	Nov	Samuelson Grp 20p	270	21.11
Jan	July	Sangers Photo 10p	84	14.10
July		Scantro 50p	195	11.11
Dec	May	Scott. TV 'A' 10p	188	28.10
		SeaCo Inc $0.125	224	1'84
—		SelecTV 10p	R	—
—		Spectrum 5p	22	—
May	Nov	TSW 5p	51	28.10
	March	TVS N/Vtg 10p	155	15.7
May		Television Svcs 50p	155	16.9
	April	Tottenham Hotspur	60	16.9
—		Trident 10p	85	—
—		21st Century Dist	8½	—
	Dec	Tyne Tees TV 'A' £1	140	28.10
Jan	July	Ulster TV N/V 'A'	166	14.10
—		Viewplan 5p	78	—
April	Sept	Webb (Jos.) 5p	17½	12.8
	July	Williams (Rex) 5p	16½	15.7
Apr.	Nov	Zetters 5p	125	30.9

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]

"Recent Issues" and "Rights" Page 14
(International Edition Page 16)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

WORLD STOCK MARKETS

Indices

NEW YORK — DOW JONES

	Jan. 10	Jan. 9	Jan. 8	Jan. 7	Jan. 6	1985-86 High	1985-86 Low	Since Comp'n High	Since Comp'n Low
♦Industrials	1513.55	1518.23	1526.61	1565.71	1547.59	1565.71 (7/1/86)	1184.96 (4/1/85)	1565.71 (7/1/86)	41.22 (2/7/32)
Home Bnds	84.12	84.32	84.65	84.57	84.47	84.67 (7/1/86)	72.73 (28/5)	—	—
Transport	686.97	686.97	693.49	706.79	697.06	723.31 (16/12)	553.93 (4/1/85)	723.31 (16/12/85)	12.32 (8/7/32)
Utilities	172.75	172.04	174.75	179.06	176.14	179.06 (7/1/86)	146.54 (4/1/85)	179.06 (7/1/86)	10.5 (28/4/42)
Trading Vol 000's	199,780	176,460	180,350	182,852	29,810	—	—	—	—

♦Day's High 1530.96 (1550.85) Low 1500.67 (1495.64)

	Jan. 3	Dec. 27	Dec. 20	Year ago (approx)
Industrial dividend yield %	4.11	4.12	4.12	5.06

STANDARD AND POORS

	Jan. 10	Jan. 9	Jan. 8	Jan. 7	Jan. 6	1985-86 High	1985-86 Low	Since Comp'n High	Since Comp'n Low
Industrials	228.46	228.72	230.59	237.02	233.79	237.09 (7/1/86)	182.24 (4/1/85)	237.02 (7/1/86)	3.62 (30/6/32)
Composite	205.96	206.11	207.97	213.80	210.65	213.80 (7/1/86)	163.68 (4/1/85)	213.80 (7/1/86)	4.40 (1/6/32)

	Dec. 31	Dec. 24	Dec. 18	Year ago (approx.)
Industrial dividend yield	3.38	3.45	3.41	4.14

International indices

	Jan. 10	Jan. 9	Jan. 8	Jan. 7	1985-86 High	1985-86 Low
AUSTRALIA All Ord. (1/1/80)	1044.2	1043.8	1041.8	1032.4	1052.2 (25/10)	715.3 (7/1/85)
Metals & Mins. (1/1/80)	526.2	521.7	517.8	507.5	585.8 (20/5)	502.5 (7/1/85)
AUSTRIA Credit Aktien (2/1/62)	124.95	124.55	122.66	120.78	124.55 (9/1/86)	58.21 (24/1/85)
BELGIUM Brussels SE (3/1/80)	2790.63	2792.84	2805.01	2810.84	2866.30 (25/11)	2090.7 (10/1/85)
DENMARK Copenhagen SE (3/1/83)	—	235.81	231.96	236.49	257.76 (2/1/86)	158.44 (8/1/85)
FRANCE CAC General (31/12/82)	275.3	276.2	282.3	278.5	282.3 (8/1/86)	180.5 (3/1/85)
Ind Tendance (31/12/85)	105.4	104.9	108.2	100.0	108.2 (8/1/86)	100.0 (31/12/85)
GERMANY FAZ Aktien (31/12/58)	688.78	685.27	705.00	677.92	705.00 (8/1/86)	382.36 (5/1/85)
Commerzbank (1/12/53)	2088.5	2081.8	2098.8	2029.3	2098.8 (8/1/86)	1111.8 (3/1/85)
HONG KONG Hang Seng Bank (31/7/64)	1807.34	1798.51	1826.84	1815.58	1826.84 (8/1/86)	1220.74 (2/1/85)
ITALY Banca Comm Ital. (1972)	456.42	460.75	465.53	457.65	465.53 (8/1/86)	228.55 (2/1/85)
JAPAN** Nikkei (16/5/49)	12998.21	13034.2	13056.8	12951.2	13136.9 (4/1/86)	11545.2 (5/1/85)
Tokyo SE New (4/1/68)	1029.90	1032.85	1037.81	1036.47	1057.55 (10/7)	916.93 (4/1/85)
NETHERLANDS ANP-CBS General (1970)	261.8	261.7	267.8	261.1	267.8 (8/1/86)	185.8 (8/1/85)
ANP-CBS Indust (1970)	248.1	248.8	254.8	248.8	254.5 (8/1/86)	147.9 (3/1/85)
NORWAY Oslo SE (4/1/83)	387.15	390.23	390.28	387.00	412.88 (12/11)	298.15 (2/1/85)
SINGAPORE Straits Times (1966)	630.06	640.43	644.95	630.46	862.65 (7/3)	598.18 (28/12)
SOUTH AFRICA JSE Gold (28/9/78)	1239.5	—	1233.6	1211.8	1277.1 (25/11)	823.8 (9/8)
JSE Indust (28/9/78)	1112.8	—	1100.8	1100.7	1105.6 (8/1/86)	767.1 (7/3)
SPAIN Madrid SE (30/12/85)	104.67	103.45	103.07	101.78	103.45 (9/1/86)	100.0 (30/12/85)
SWEDEN Jacobson & P (1/1/58)	1981.89	1,987.32	1807.23	1895.76	1807.23 (8/1/86)	1285.32 (3/7)
SWITZERLAND Swiss BankCpn (31/12/58)	594.5	610.2	625.5	612.5	625.5 (8/1/86)	385.7 (3/1/85)
WORLD M.S. Capital Intl. (1/1/70)	255.2	—	256.0	250.8	259.8 (7/1/86)	184.6 (4/1/85)

** Saturday January 4: Japan Nikkei 13,136.9. TSE 1,049.13.
Base value of all indices is 100, except: JSE Gold—255.7; JSE Industrial—264.3; Australia All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

CANADA

TORONTO
Closing prices January 10

MONTREAL
Closing prices January 10

OVER-THE-COUNTER
Nasdaq national market, closing prices, January 10

Continued from Page 25

AUSTRIA
BELGIUM/LUXEMBOURG
FRANCE
DENMARK
SWITZERLAND
GERMANY
HONG KONG
NETHERLANDS
SOUTH AFRICA
SINGAPORE
AUSTRALIA
NORWAY
ITALY
SWEDEN
JAPAN
SPAIN

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INTERNATIONAL APPOINTMENTS

Founding family tightens grip on Amerada Hess

BY WILLIAM HALL IN NEW YORK

MR LEON HESS, the 72-year-old founder of Amerada Hess, has taken over the chief executive's post, but appears to be grooming his son, the 31-year-old John B. Hess, to take over the helm of the secretive US oil company when he eventually retires.

Mr Hess reassumes day to day control of his company at a difficult juncture in its affairs. In the first nine months of 1985, the group's net income fell by 2 per cent to $105.4m and last month it announced that it was taking a $430m after-tax charge to cover losses on its shipping operations.

Mr Leon Hess, who is currently chairman and whose family is believed to control close to 20 per cent of the company, is reassuming the chief executive's title on the retirement of Mr Philip Kramer, who has held the job since 1982. Mr Kramer has reached retirement age and will continue as a director of the company.

Mr Robert T. Wright, aged 68, currently an executive vice president and director of Amerada Hess, has been elected president and chief operating officer. However, Mr John B. Hess, currently a senior vice president of the group has been promoted to senior executive vice president.

The management reshuffle at the top of Amerada Hess includes several other moves. Mr Norman Goldberg, formerly a senior vice president, has been elected an executive vice president, Mr J. Barclay Collins II, formerly vice president and general counsel, has been elected senior vice president and general counsel and a member of the board of directors. Mr W. S. Laidlaw has ben promoted from vice president to senior vice president.

Amerada Hess is an integrated oil company which produces around 160,00 barrels of oil a day, slightly under half of which comes from its North American operations. In descending orde rof importance, the UK North Sea, Libya, Norway and Abu Dhabi are its next most important sources of oil.

Moves at Capital Cities

By Our Financial Staff

THE RUN OF management changes at Capital Cities-ABC following the $3.5bn takeover of American Broadcasting Companies by Capital Cities Communications, has been continued with two appointments.

Mr Michael P. Mallardi becomes a senior vice president of Capital Cities-ABC, it is announced by Mr Daniel B. Burke, the president and chief operating officer, and is also to be president of the ABC broadcasting division. Mr Mallardi was executive vice president of American Broadcasting Companies, where he had been chief financial officer since 1975.

Mr Phillip J. Meek has also been appointed a senior vice president of Capital Cities-ABC, and president of its publishing division. Mr Meek, president and publisher of the Fort Worth Star-Telegram, will retain current responsibilities.

The resignation of Mr Fred Pierce as chief executive of American Broadcasting Companies was reported last week, when it was also announced that Mr John Sias had been appointed president of the ABC division of the new group and would be responsible for the ABC television network and the entertainment, news and sports divisions.

Restructuring at Allied Irish

BY DONALD MACLEAN

ALLIED IRISH BANKS, the Dublin-based bank which has a major interest in the US through its affiliation with First Maryland Bancorp, has undertaken a management reconstruction aimed at making it more responsive to customer needs.

Among the bank's objectives is that of avoiding one of its parts competing with another in promoting customer services.

The changes, brought into effect on January 1, give particular attention to the separate requirements of retail and corporate business; to strategic development, involving the investment in First Maryland, which is scheduled to reach 51 per cent by 1987, when it is expected to account for about 33 per cent of the AIB group consolidated balance sheet, compared with the current 25 per cent of shareholders' funds; and to group management support, covering fields such as credit and risk management, corporate planning, management information and to banking industry liaison.

The bank last year took a write-off of some I£60m ($70m) on the Government rescue of its subisdiary, the Insurance Corporation of Ireland.

The appointments are these: Mr Jeremiah J. McAuliffe, assistant chief executive, retail banking; Mr Eamonn F. McElroy, general manager, branch banking, Ireland; Mr Donal Chambers, general manager, industrial banking, Ireland; Mr Brian Y. Wilson, group general manager, Britain; Mr Patrick M. Dowling, assistant chief executive, corporate banking; Mr Thomas P. Mulcahy, group general manager, corporate and international; Mr P. Ray Douglas, group general manager, treasury; Mr Diarmuid Moore, director, group strategic development; Mr Dermot Egan, director, group marketing and human resources; Mr John F. Keogh, group financial director; Mr Neil Dean, group controller.

Peter Storer steps down

STORER COMMUNICATIONS, the Miami broadcasting and cable television company which was recently taken over by Kohlberg Kravis Roberts (KKR), the Wall Street leveraged buyout specialist, has announced that Mr Peter Storer, 58, is retiring as chairman and chief executive.

Mr Terry Lee, 64, is to be chairman and chief executive, additionally to holding the posts of president and chief operating officer.

White Consolidated promotes Smith

BY OUR FINANCIAL STAFF

WHITE CONSOLIDATED Industries, the Cleveland, Ohio, consumer appliances company which also has strong involvement in the industrial equipment business, has appointed Mr Ward Smith, 55, its chief executive, in place of Mr Roy H. Holdt, who has reached the age of 65.

Mr Holdt, an accountant by background, who has been chief executive for 10 years, remains chairman, Mr Smith, a lawyer, who has been with White for 20 years, lately as president, takes up the chief executive task at a time when the company—which includes household names such as Frigidaire and Kelvinator among its brands—is reacting to the report by McKinsey and Co, the US-based international business consultants, commissioned in late 1982 and presented in the earlier part of 1984.

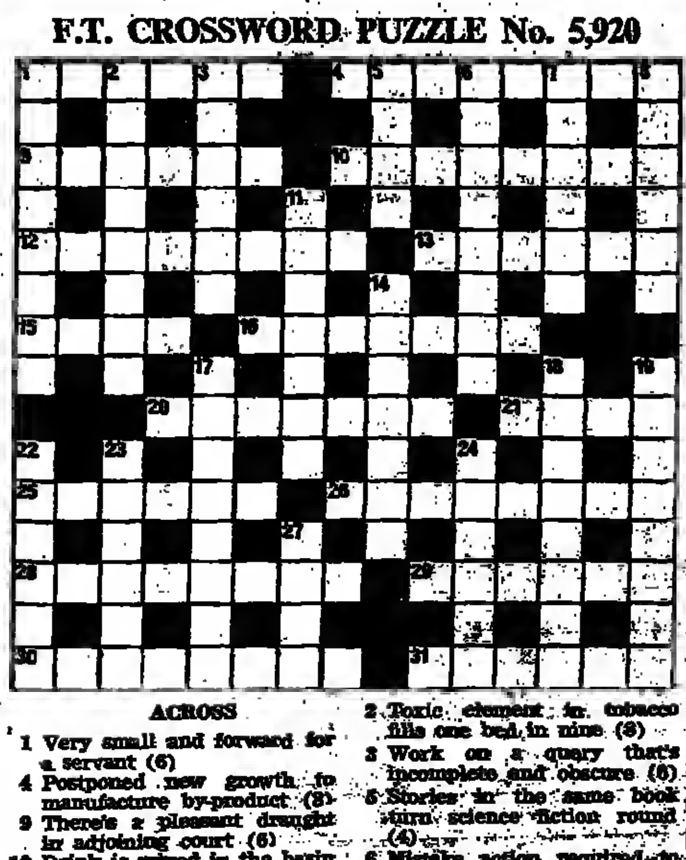
In the wake of the McKinsey study, Mr Chace Anderson, 36, is to join White as director of corporate development.

In 1985, the company was hit by price competition and by the depressed condition of the machine tools industry. For the first nine months of the year, operating net profits were $27.4m on revenues of $1.51bn, against $46.6m on revenues of $1.5bn in the same period of 1984.

Daiwa Securities

DAIWA SECURITIES Company has appointed Mr H. Takahashi general manager of the international banking department at its Tokyo head office. Mr Takahashi leaves the post of managing director of Daiwa Europe, in London, at the end of the month, and will be succeeded by Mr N Yonetani.

F.T. CROSSWORD PUZZLE No. 5,920



ACROSS

1 Very small and forward for a servant (6)
4 Postponed new growth to manufacture by-product (8)
9 There's a pleasant draught in adjoining court (6)
10 Drink is mixed in the basin (8)
12 Trained from first to last in fits and starts (8)
13 Son affected by one dish of sea-food (6)
15 Nothing, repeat nothing, is to go back on the floor (4)
16 Dispute argument against taking examination (7)
20 I'm led astray, mother, that's the problem (7)
21 Short measure causes bitterness (4)
25 Escapes notice during vigils (6)
26 Senior member of family captured in France, storming the Bastille (8)
28 Previously settled for a quick appraisal (4-4)
29 Expedition from South America to remote island (6)
30 Reverential attitude towards flavouring (8)
31 Old sailor has aged so strangely (3, 3)

DOWN

1 Crew, even though not young, is numerous (8)
2 Toxic element in tobacco fills one bed in nine (8)
3 Work on a query that's incomplete and obscure (6)
5 Stories in the same book turn science fiction round (4)
6 Mistake action required to preserve volume (8)
7 It's not late for mine to change (2, 4)
8 Squeeze and force it up to hold ends away from knot (6)
11 It opens by mistake (7)
14 Moves round without energy or vigour (7)
17 Guide takes old woman round road hazard (8)
18 Trade was shifted towards the Orient (8)
19 Making one start properly equipped for flying to China (8)
22 Concerning the business: it has to go on leading to make good (6)
23 Soft mineral normally found near Bath or in coastal Cumbria (6)
24 Steer clear of creature that buzzes around fighting (6)
27 Felt out of place so went away (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

UK APPOINTMENTS

Finance director for Woolworth

WOOLWORTH HOLDINGS has appointed Mr Derek Pretty to the board as finance director. He is finance director of F. W. Woolworth, a subsidiary, where his successor is Mr David Defty. Mr Defty comes from Guinness where he was director of finance and control.

COMET, a Woolworths Holding Group company, has appointed Mr Lee McKee to fill the newly-created post of personnel director, from Rumbelows. Mr Peter McCague joins as managing director, Electronic World, the specialist electronic retailing business within selected Woolworth stores. He comes from Stylo. Mr Alan Hatton, technical director, has retired and his successor as service director is Mr George Johnson. Mr John Cumming becomes development director and Mr Derek Mason has been assigned operations director.

★

SVENSKA INTERNATIONAL, international merchant banking arm of the Svenska Handelsbanken Group, has appointed Mr Peter Colmes, head of equity trading and sales, as associate director. Mr Lars-Gunnar [illegible] becomes senior manager, treasury; Mr Anthony Legg, senior manager, banking services; and Ms Birgitta Aplin senior manager, corporate finance.

★

WHITWORTHS FOOD GROUP has appointed two divisional managing directors. Mr Peter Nicholson joins as divisional managing director of the new transport and distribution division which is being formed to handle both group and third party work. He was previously with Geest Industries. Mr Garry Peck joins in mid-January as divisional managing director of the new fresh fruit division.

★

Mr A. J. S. Robertson has been appointed group financial controller of THE LAIRD GROUP in succession to Mr N. E. Dow who has left.

★

Mr Victor H. Ratner has been appointed a director of RATNERS (JEWELLERS).

★

Mr J. Geoffrey Powell has been appointed a member of the investment advisory panel of the NATIONAL COAL BOARD PENSION FUNDS. He is a consultant to Gerald Eve & Co, deputy chairman of the Local Government Boundary Commission for England, a member of British Rail Property Board, and chairman of the Property Advisory Group.

★

Mr William D. Stevens, vice-president of ESSO EUROPE INC, London, since 1978, has been elected executive vice-president. He has been succeeded as vice-president responsible for Esso Europe's exploration and production activities by MR HARRY J. LONGWELL, formerly of Exxon Company USA in Houston.

★

Mr John Perry has been appointed manager of BP OIL'S retail division. He succeeds Mr Greg Harvey, who moves to BP Australia. Mr Perry was assistant general manager of BP New Zealand.

★

EVERARDS BREWERY has changed the organisation of the group board, creating four divisional directors. Mr Nick Lloyd, at present retail director, becomes sales director. Free trade director Mr Nick Raven takes over the group subsidiary John Sarson & Son. Mr Richard Everard's responsibilities as commercial director are broadened to include group property purchases, and financial director, Mr Peter Stephens, takes on additional management services responsibilities.

★

Mr Malcolm Constable has been appointed vice president and team leader in the financial institutions group at BANK OF AMERICA, London. He was formerly with Citibank NA.

★

MANSON FINANCE TRUST has appointed Mr L. A. W. Evans as group managing director and Mr R. Williams a director. Mr Adrian Evans was previously managing director, investment banking, of Grindlays Bank and a member of the board of Grindlays Bank.

★

Mr Antony A. M. Pinsent has been appointed a director of FRANK B. HALL (HOLDINGS). He is chairman of Leslie & Godwin (Aviation) and managing director of Leslie & Godwin.

★

ROLLS-ROYCE has appointed Sir Philip Shelbourne, chairman of Britoil, as a non-executive director. Mr Peter Moloney has resigned from the board.

As part of a management reorganisation within the Marconi division of GEC, Mr David Fletcher, managing director of Marconi defence systems, will assume, in addition, overall control of the management of Marconi secure radio systems. The Marconi factory at Hillend, Edinburgh, will become the responsibility of Mr Paul Robinson, managing director of Marconi command and control systems.

★

Mr Alan B. Sanders has been appointed vice president, marketing UK, Smith Kline and French Laboratories. He was marketing director, UK pharmaceutical division.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

INSURANCES

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Wide Growth Management
10a, Boulevard Royal, Luxembourg

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr

The Charities Deposit Fund
77 London Wall, London EC2N 1DB

The Money Market Trust
63 Qn Victoria St, EC4N 4ST.

Oppenheimer Money Management Ltd
66 Cannon St, EC4N 6AE.

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr

Adam & Co. plc
22 Charlotte Sq. Edinburgh, EH2 4DF

Aitken Hume
30 City Road, EC1Y 2AY.

Allied Arab Bank Ltd
97-101 Cannon St, London, EC4N 5AD

Bank of Scotland
38 Threadneedle St, EC2P 2EH.

Barclays Prime Account
PO Box 125, Northampton

Britannia Investment Services Ltd.

NOTES

OPTIONS

3-month call rates

Closing prices, January 10

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27 7/8	19	AAR	.56	2.2	16	90	26 1/4	25 7/8	25 7/8	-3/8
24 5/8	10 7/8	AGS			16	143	23 1/8	22 3/4	25	+1/4
15 3/8	9 7/8	AMCA				44	11	10 7/8	10 7/8	+1/8
50 3/4	33 1/2	AMR			7	8626	40 5/8	40 1/8	40 1/2	+1/8
22	19	ANR pf	2.12	10		2	21	21	21	+3/8
11 3/4	7 5/8	APL			5	12	10 5/8	10 1/2	10 1/2	-1/8
16 3/8	9 5/8	ARX			14	20	14 3/4	14 5/8	14 5/8	-1/8
55 5/8	32 3/4	ASA	2a	5.2		1006	39	37 1/2	38 1/8	-3/8
27	10 1/2	AVX		2.3		71	14 5/8	14 1/8	14 1/8	
28 1/8	20 5/8	AZP	2.72	10	8	1989	27	26 1/2	26 3/4	+1/4
72	39 7/8	AbtLab	1.40	2.1	18	1281	67	65 7/8	66 3/4	+1
27	19 5/8	AccoWd	.60	1.0	20	17	26 7/8	26 1/2	26 7/8	+1/4
24 3/4	10	AcmeC	.40	2.9	20	61	14	13 3/4	14	
10 1/8	7	AcmeE	.32b	3.9	12	159	8 1/4	8 1/8	8 1/8	-1/8
19 3/4	15 1/2	AdaEx	1.92e	10.		188	18 7/8	18 5/8	18 7/8	+1/8
22 3/4	14	AdmMl	.40	1.9	9	38	21 5/8	21 1/4	21 1/4	
18 5/8	8 3/4	AdvSys	1.36t	8.8	15	32	17 1/8	16 7/8	17	-1/4
36 5/8	22 7/8	AMD			40	2554	27 7/8	27	27 1/8	-3/8
12 1/2	10 5/8	Adobe n				60	12 1/8	11 7/8	11 7/8	-1/4
18 3/4	14 5/8	Adob pf	1.84	10		44	17 7/8	17 5/8	17 5/8	-1/8
18 3/4	15 1/4	Adob pf	2.40	13.		48	18	17 7/8	17 7/8	
14 5/8	7 1/4	Advest	.12a	.8	19	545	13 5/8	13 1/8	13 1/2	+5/8
55 1/2	36 3/4	AetnLf	2.64	5.0	17	x2967	53 1/4	52 3/4	52 7/8	+5/8
57 1/2	52 1/2	AetL pf	5.19e	9.7		14	53 5/8	53 5/8	53 5/8	-1/8
54	24 5/8	Ahmns	1.20	2.4	8	1909	50 5/8	49 1/4	49 5/8	-1/4
3 7/8	2 1/2	Aileen				237	3 1/4	3 1/8	3 1/4	
68 1/4	44 1/2	AirPrd	1.40	2.5	14	220	65	64	64 7/8	+3/4
24 5/8	17 1/2	AirbFrt	.60	3.2	11	106	19 1/8	18 3/4	19	-1/8

Continued on Page 25

NYSE COMPOSITE CLOSING PRICES

Continued from Page 24

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
103½	89½	PaPL pr 11		11.		z80	s104½	103½	103½	-
70½	59	PaPL pr 8		11.		z300	u71	69¾	71	+1½
44½	34	Pennwlt	2.20	5.4		863	42	40¾	41	-¾
20⅝	21⅞	Penw pf	1.80	8.4		2	25	20	20	-¼
91	34	Pennzol	2.20	3.1	32	5080	75	70	72	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMEX COMPOSITE CLOSING PRICES

Closing prices, January 10

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OVER-THE-COUNTER

Nasdaq national market, closing prices, January 10

Stock	Sales (Hds)	High	Low	Last	Chng
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 26

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Pound haunted by 1985 crisis

BY COLIN MILLHAM

There was every indication it would be a quiot week in the financial markets last Monday, although sterling was weak against Continental currencies and below recent highs in terms of the dollar. At the beginning of December the pound was around DM 3.75 against the D-mark, and near the year's peak of $1.4885. But in early trading last week sterling threatened the DM 3.50 level and had lost about 5 cents on the month against the dollar.

Fears of a repetition of the early 1985 sterling crisis began to haunt the market, and in spite of a depressed dollar within a relatively calm foreign exchange market, dealers started to think in terms of higher London interest rates.

December money supply and bank lending figures, published Tuesday, provided the catalyst for the rise of 1 per cent in bank base rates.

The rise of ½-¾ per cent in sterling M3 was no surprise, and the increase of ¼-½ per cent in M0 left the narrowest definition of money supply below its target range, because of distortions caused earlier by the British Telecom share sale.

But the rise of £2.1bn in bank lending to the private sector, compared with an average of about £1.6bn a month over the preceeding six months, did not please the market and contributed to the nervous conditions leading up to the base rate increase.

After a bad reaction to the bank lending figure London money market rates rose to around 12¾ per cent on Wednesday morning and the Bank of England gave a very clear signal that it was not opposed to higher base rates. The authorities declined to operate in the bill market on that day, preferring to lend £330m to the discount houses until Friday at a rate of 12½ per cent.

Some dealers felt that the central bank was indicating a minimum level of 12½ per cent for base rates, and that the commercial banks were free to set a higher rate if they chose. But Midland Bank soon settled on a rise of 1 per cent to 12½ per cent, and the other clearing banks quickly moved into line.

On Thursday money market rates touched a peak of around 13¼ per cent, but as sterling gained support on the foreign exchanges from a weaker dollar, rates fell back, and pressure for a further rise in base rates subsided.

The mood of financial markets remains very nervous however, with oil prices weak, and oil companies running the lowest stock levels since 1977. Ministers from the Organisation of Petroleum Exporting Countries are to meet in early February, and the market fears that the economic problems of members, including Saudi Arabia, may produce lower prices in an attempt to increase Opec's share of the world market.

The rise in base rates therefore appears to be a move to placate fears about the Government's economic policy, and particularly the high level of bank lending, rather than an attempt to prop up sterling because of worries about the oil market.

Immediate pressure on London interest rates has eased, partly because of the setback to the dollar caused by rumours that Arab countries might withdraw investments in the US, following the Reagan Administration's moves against Libya. But the market will need reassurances about the world oil situation, and a period of stability in sterling, before fears of another base rate rise are allayed.

Against the dollar, the pound closed at $1.4545, a rise of 15 points.

£ IN NEW YORK

	Jan. 10	Prev. close
£ Spot	$1.4480-1.4490	$1.4585-1.4595
1 month	0.55-0.54pm	0.56-0.56pm
3 months	1.60-1.57pm	1.66-1.63pm
12 months	5.40-5.30pm	5.65-5.55pm

Forward premiums and discounts apply to the U.S. dollar

CURRENCY MOVEMENTS

Jan. 10	Bank of England Index	Morgan Guaranty Change %
Sterling	78.6	–12.6
U.S. dollar	123.2	+16.2
Canadian dollar	80.8	–11.2
Austrian schilling	122.8	+6.4
Belgian franc	93.2	–9.3
Danish Kroner	83.9	–2.9
Deutsche mark	131.8	+13.2
Swiss franc	150.8	+11.3
Guilder	121.9	+7.3
French franc	70.3	–11.6
Lire	45.4	–10.5
Yen	176.8	+28.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

Jan 10	£	$
Arg'tina	1.1648-1.1971	0.8000-0.8019
Aus'alia	2.0930-2.0970	1.4363-1.4378
Brazil	16,884-15,976	10,010-10,903
Finland	7.8662-7.8892	5.4100-5.4189
Greece	213.75-217.10	146.60-149.60
H'kong	11.3656-11.4066	7.8065-7.8085
Iran	121.45*	84.19*
Kuwait	0.4215-0.4225	0.28872-0.28887
Lux'burg	72.60-72.70	49.90-50.00
Malay'as	3.5385-3.5496	2.4310-2.4330
N'Z'land	2.8730-2.8830	1.9723-1.9800
Saudi Ar.	5.3105-5.3175	3.6475-3.6493
Sin'pore	3.0858-3.0938	2.1185-2.1203
S.Af.(Cm)	3.4679-3.4910	2.3752-2.3837
S.Af. (Fn)	4.5531-4.6999	3.1250-3.2258
U.A.E.	5.3470-5.3625	3.6725-3.6735

* Selling rate.

CURRENCY RATES

Jan. 10	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.764289	0.611958
U.S.$	7½	1.09661	0.889786
Canadian $	0.62	*	1.24170
Austria Sch.	4	18.9038	15.3666
Belgian Fr	9¾	39.0969	44.6917
Danish Kr	7	9.78067	7.97385
D'mark	4	2.69380	2.18622
Guilder	5	5.03733	2.46111
French Fr	8½	N/A	6.70899
Lira	19½	N/A	1490.39
Yen	5	221.111	180.004
Norway Kr.	8	8.24685	6.75123
Span'h Pta	—	167.667	136.188
Swedish K	10½	8.29016	6.75570
Swiss Fr	4	2.26961	1.85431
Greek Dr'ch	20½	N/A	132.680
Irish Punt	—	N/A	0.716991

* CS/SDR rate for January 9: 1.52869.

POUND SPOT—FORWARD AGAINST POUND

Jan 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4495-1.4665	1.4540-1.4550	0.58-0.56c pm	4.66	1.61-1.56pm	4.36
Canada	2.0238-2.0418	2.0288-2.0338	0.52-0.43c pm	2.81	1.36-1.23pm	2.56
Nethlnd.	4.01-4.02½	4.01-4.02	2½-2¼c pm	7.10	6¾-6½pm	0.60
Belgium	72.60-73.20	72.60-72.70	20-12c pm	2.64	46-34pm	2.20
Denmark	13.00¼-13.03¾	13.00¾-13.01¾	4¼-3¼ore pm	3.40	10-9¾pm	3.02
Ireland	1.1665-1.1740	1.1690-1.1710	0.05p pm-0.18dis	–0.67	0.12-0.35dis	–1.66
W. Ger.	3.56-3.58	3.56½-3.57¼	2½-2¼pf pm	7.98	7-6¾pm	7.13
Portugal	229-234	230-231	130-425c dis	–14.45	395-1200d	–13.84
Spain	222¼-223	222½-223	15-35c dis	–1.35	45-120dis	–1.48
Italy	2,428¾-2,438¾	2,429¼-2,430¼	5-11lire dis	–3.95	20-28dis	–4.36
Norway	10.97½-11.03	10.98¾-10.99¾	par-¾ore dis	–0.41	¾-1¼dis	–0.41
France	10.92½-10.97¼	10.92½-10.93¾	2¾-1½c pm	2.26	½pm-1¼	–0.08
Sweden	11.01½-11.07¼	11.01½-11.02¼	¼ore pm-¼dis	–0.34	¼pm-par	0.14
Japan	294-295¾	294-295	1½-1¼y pm	5.60	4¼-4pm	5.60
Austria	25.05-25.16	25.12-25.16	13¼-12gro pm	6.80	38¼-35¾pm	5.89
Switz.	3.02-3.04	3.02-3.03	2¾-2¼c pm	8.93	6½-6¼pm	8.35

Belgian rate is for convertible francs. Financial franc 73.95-74.05. Six-month forward dollar 3.00-2.95c pm. 12-month 5.50-5.30c pm.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.4546	1.4489	1.4441	1.4248	1.4006
D-Mark	3.5725	3.5480	3.5037	3.4400	3.3254
French Franc	10.93	10.9079	10.9275	10.9303	10.8676
Swiss Franc	3.0250	3.0011	2.9618	2.9043	2.7985
Japanese Yen	293.95	292.56	289.30	285.10	278.30

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu January 10	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.8320	44.6917	–0.31	+1.14	±1.5425
Danish Krone	8.12857	7.97382	–1.81	–0.16	±1.6421
German D-mark	2.23840	2.18621	–2.33	–0.88	±1.1455
French Franc	6.86402	6.70899	–2.26	–0.81	±1.3654
Dutch Guilder	2.52208	2.46119	–2.42	–0.97	±1.5162
Irish Punt	0.724578	0.716991	–1.05	+0.40	±1.6673
Italian Lira	1520.60	1490.39	–1.99	–1.40	±4.0856

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

Jan 10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4495-1.4665	1.4540-1.4550	0.58-0.55c pm	4.66	1.61-1.56pm	4.36
Ireland†	1.2390-1.2541	1.2435-1.2480	0.65-0.45c pm	5.31	2.20-1.50pm	5.95
Canada	1.3885-1.3965	1.3920-1.3930	0.20-0.23c dis	–1.85	0.60-0.65dis	–1.79
Nethlnd.	2.7390-2.7700	2.7595-2.7605	0.59-0.56c pm	2.51	1.63-1.60pm	2.35
Belgium	49.72-50.25	49.90-50.00	6-10c dis	–1.91	23-29dis	–2.07
Denmark	8.88¾-8.97¼	8.94-8.94½	¼ore pm-¼dis	0.00	par-¼dis	–6.14
W. Ger.	2.4305-2.4595	2.4550-2.4560	0.75-0.72pf pm	3.59	2.10-2.05pm	3.38
Portugal	156¾-158	157½-158½	150-360c dis	–18.33	450-1000d	–18.30
Spain	151.60-153.00	152.40-152.50	45-75c dis	–4.71	200-280dis	–6.01
Italy	1,659-1,677	1,670-1,671	11-12½lire dis	–8.41	33-36dis	–8.23
Norway	7.48¾-7.58	7.55½-7.56	3-3¼ore dis	–5.16	8¾-9¾dis	–4.78
France	7.48-7.54½	7.51¼-7.51¾	1.30-1.70c dis	–2.39	8.00-9.00dis	–4.51
Sweden	7.54½-7.60½	7.57¼-7.57¾	3-3¼ore dis	–4.93	7½-8dis	–4.08
Japan	201.60-202.30	202.05-202.15	0.21-0.18y pm	1.16	0.71-0.67pm	1.36
Austria	17.10-17.28	17.23-17.25	2½-2gro pm	1.54	7½-5pm	1.54
Switz.	2.0630-2.0890	2.0790-2.0800	0.78-0.73c pm	4.36	2.15-2.10pm	4.08

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.
Belgian rate is for convertible francs. Financial franc 50.85-50.90.

EURO-CURRENCY INTEREST RATES

Jan. 10	Short term	7 Days notice	1 Month	Three Months	Six Months	One Year
Sterling	11⅝-11⅞	12-12⅛	12⅝-12¾	12¼-12⅞	12⅝-12{11/16}	12⅜-12{11/16}
U.S. Dollar	7¼-7⅞	8-8⅛	8⅛-8¼	8{1/16}-8{3/16}	8⅛-8¼	8¼-8⅜
Can Dollar	9¾-10¼	10-10¼	9{13/16}-10{1/16}	9{15/16}-10{1/16}	9{15/16}-9{13/16}	9⅝-9⅞
D Guilder	6{7/16}-5{11/16}	5{11/16}-5{11/16}	5⅝-5¾	5{11/16}-5{13/16}	5{11/16}-5{13/16}	5{13/16}-5{13/16}
Sw. Franc	1⅜-1⅝	2-2¼	3{11/16}-3{13/16}	3{15/16}-4{1/16}	4-4⅛	3⅞-4
Deutschmrk	4⅛-4⅜	4⅜-4{11/16}	4⅜-4{11/16}	4⅝-4¾	4⅝-4¾	4¾-4⅞
Fr. Franc	8¾-9	9-8¼	10-10¼	12¼-12½	12¼-12⅝	11-11½
Italian Lire	12-16	14-16	16½-17	16-17	16⅞-16⅝	15-16¾
B.Fr.(Fin)	9⅝-9⅝	8⅝-9⅞	9¾-10	8¾-10	9⅛-9¼	8¼-9⅛
Br.Fr(Con)	9¼-9¾	10-10½	10-10½	10-10½	8¾-10¼	9¼-9¾
Yen	6⅞-7	7{1/16}-7{3/16}	7{1/16}-7{3/16}	6{13/16}-6{15/16}	6¼-6⅝	6{7/16}-6½
D. Krone	8⅞-9⅝	8⅝-9⅛	8¾-9¼	8⅞-8⅝	8⅞-9⅝	8⅞-9⅝
Asian $ (Sng)	7{15/16}-8{1/16}	8{1/16}-8{3/16}	8⅛-8¼	8⅛-8¼	8⅛-8¼	8¼-8⅜

Long-term Eurodollars: two years 8¾-9 per cent; three years 9¼-9½ per cent; four years 9¼-9½ per cent; five years 9½-9¾ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4546	1.4489	1.4441	1.4248	1.4005

IMM—STERLING Se per £

	Close	High	Low	Prev
March	1.4380	1.4590	1.4340	1.4555
June	1.4230	1.4390	1.4195	1.4405
Sept	1.4105	1.4160	—	1.4285
Dec	1.4035	—	1.3965	1.4150

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
March	1.4470	1.4540	1.4425	1.4490
June	1.4320	—	—	1.4380
Sept	1.4190	—	—	1.4095

Est volume 382 (60)
Previous day's open int 2,094 (2,057)

DIFFE—DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
March	0.4112	0.4127	0.4095	0.4115
June	0.4144	—	—	0.4150

Est volume 85 (133)
Previous day's open int 164 (160)

CHICAGO

US TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
March	83-04	83-27	83-01	83-19
June	82-01	82-26	81-30	82-19
Sept	81-03	81-22	80-30	81-17
Dec	80-05	80-27	80-05	80-22
March	79-10	80-04	79-10	79-28
June	78-28	79-09	78-28	79-10
Sept	—	—	—	—
Dec	77-38	—	—	78-09
March	77-12	—	—	77-28
June	77-00	77-10	77-00	77-14

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
March	92.92	92.98	92.92	92.95
June	92.75	92.81	92.74	92.78
Sept	92.58	92.62	92.58	92.64
Dec	92.39	92.43	92.38	92.44
March	92.12	92.21	92.19	92.25
June	91.97	92.01	92.00	92.06
Sept	91.79	91.82	91.91	91.88
Dec	91.62	—	91.64	91.10

CERT DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
March	92.17	92.25	92.18	92.25
June	91.97	92.04	92.00	92.07
Sept	91.77	—	—	91.86
Dec	91.55	—	—	91.67

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
March	91.85	91.94	91.84	91.92
June	91.65	91.74	91.64	91.74
Sept	91.46	91.54	91.46	91.56
Dec	91.24	91.32	91.24	91.35
March	91.01	91.09	91.01	91.12
June	90.77	90.87	90.78	90.88
Sept	90.55	90.66	90.57	90.66
Dec	90.24	90.41	90.37	90.40

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
March	109-09	109-14	108-28	108-22
June	109-22	109-22	109-19	109-06
Sept	110-00	—	—	109-16

Est volume 4,950 (6,836)
Previous day's open int 5,305 (4,823)
Basis quote (clean cash price of 13½% Treasury 2004/08 less equivalent price of near futures contract) –4 to +6 (32nds)

LIFFE—EURODOLLAR OPTIONS $1m points of 100%

Strike price	Calls—Last March	June	Sept	Vol	Puts—Last March	June	Sept	Vol
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int. Calls 2,393, Puts 2,164

LIFFE £/$ OPTIONS £25,000 (cents per £1)

Strike price	Calls—Last Jan	Feb	Mar	June	Sept	Puts—Last Jan	Feb	Mar	June	Sept
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume total Calls 302, Puts 488
Previous day's open int. Calls 6,630, Puts 7,281

LONDON SE £/$ OPTIONS £12,500 (cents per £1)

Strike price	Calls—Last Jan	Feb	Mar	June	Sept	Puts—Last Jan	Feb	Mar	June	Sept
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 7,074 Puts 4,432 Today's volume: 740

PHILADELPHIA SE £/$ OPTIONS £12,500 (cents per £1)

Strike price	Calls—Last Jan	Feb	Mar	June	Sept	Puts—Last Jan	Feb	Mar	June	Sept
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Previous day's open int: Calls 89,237, Puts 46,916
Volume (mid-day): Calls 3,466, Puts 519

10% NOTIONAL SHORT GILT £100,000 64ths of 100%

	Close	High	Low	Prev
March	94-59	95-00	94-56	94-59
June	95-29	—	—	95-01

Est volume 183 (588)
Previous day's open int 1,049 (982)

THREE-MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev
March	87.37	87.43	87.32	87.17
June	87.87	87.90	87.78	87.62
Sept	88.24	88.27	88.20	88.00
Dec	88.42	88.42	88.35	88.16

Est volume 5,800 (9,790)
Previous day's open int 2,877 (3,266)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev
March	140.90	140.95	139.80	139.40
June	142.40	—	—	140.90

Est volume 336 (951)
Previous day's open int 1,470 (1,512)

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
March	91.84	91.94	91.86	91.89
June	91.76	91.78	91.70	91.78
Sept	91.55	91.58	91.54	91.57
Dec	91.34	91.38	91.33	91.36

Est volume 4,082 (10,312)
Previous day's open int 10,161 (10,309)

US TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev
March	83-01	83-27	83-07	83-22
June	82-22	82-20	82-11	82-20

Est volume 4,220 (5,679)
Previous day's open int 3,773 (2,676)

EXCHANGE CROSS RATES

Jan 10	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.455	3.573	294.0	10.93	3.025	4.015	2430.	2.031	72.65
$	0.688	1.	2.456	202.1	7.515	2.080	2.760	1671.	1.397	49.95
DM	0.280	0.407	1.	82.28	3.059	0.847	1.124	680.1	0.569	20.34
YEN	3.402	4.948	12.15	1000.	37.16	10.29	13.66	8266.	6.910	247.2
F Fr.	0.916	1.331	3.269	268.9	10.	2.768	3.673	2223.	1.858	66.47
S Fr.	0.331	0.481	1.181	97.17	3.613	1.	1.327	803.3	0.672	24.02
H Fl.	0.249	0.362	0.890	73.21	2.723	0.753	1.	605.2	0.506	18.09
Lira	0.412	0.599	1.470	121.0	4.498	1.245	1.652	1000.	0.836	29.90
C $	0.492	0.716	1.759	144.7	5.381	1.489	1.977	1196.	1.	35.77
B Fr.	1.376	2.002	4.917	404.6	15.04	4.163	5.526	3344.	2.796	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

MONEY MARKETS

Record volume on Liffe

Volume was at a record level on the London International Financial Futures Exchange last week, and although turnover remains small in comparison with the Chicago markets, Liffe is obviously pleased at its assimilation into London's financial community.

Total volume for the week was a record 129,189 contracts, compared with the previous record of 112,634 on the week ending November 1. Last Thursday was a record for one day's trading on the exchange, at 38,981 contracts, and overall volume was particularly encouraging during the week in three-month sterling deposits and US Treasury bond futures.

The short sterling contract traded a highest ever 12,091 on Wednesday, a rise of 68 per cent from the previous record of 7,177 set on Tuesday.

Increased activity on the cash London money market, after a very quiet second half of 1985, obviously helped stimulate trading on Liffe, helped by a build up of liquidity in the futures market.

Mr Michael Jenkins, chief executive of Liffe, commented that liquidity has developed to the extent where futures are an integral part of the cash market.

Cash traders, such as the discount houses, some of whom also have seats on the futures exchange, appear to be increasingly using Liffe to hedge their positions.

UK clearing banks base lending rate 12½ per cent since January 9

NEW YORK

(4 pm)

Prime rate	9½
Broker loan rate	0
Fed funds	7⅞
Fed funds at intervention	7 {13/16}

Treasury Bills & Bonds

One month	6.79
Two month	7.13
Three month	7.47
Six month	7.75
One year	7.90
Two year	8.23
Three year	8.61
Four year	8.86
Five year	8.94
Seven year	9.28
10 year	9.38
30 year	9.53

BANK OF ENGLAND TREASURY BILL TENDER

	Jan. 10	Jan. 3		Jan. 10	Jan. 3
Bills on offer	£100m	£100m	Top Accepted rate of discount	12.3125%	11.8508%
Total of applications	£371.36m	£571.14m	Average rate of discount	12.1923%	11.9092%
Total allocated	£100m	£100m	Average yield	12.57%	11.69%
Minimum accepted bid	£96.985	£97.29	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	5%	18%			

WEEKLY CHANGE IN WORLD INTEREST RATES

	Jan. 10	change
LONDON		
Base rates	12½	+1
7 day interbank	12	+¾
3mth interbank	12¾	–⅛
Treasury Bill Tender	12.1923	+0.9851
Band 1 Bills	12⅝	+1
Band 2 Bills	12{7/16}	+1
Band 3 Bills	12¼	+1
Band 4 Bills	12{7/16}	+1
3 Mth. Treasury Bills	12{5/16}	+1{1/16}
1 Mth. Bank Bills	12⅝	+1
6 Mth. Bank Bills	12{5/16}	+¾
TOKYO		
One month Bills	7.15620	–0.5625
Three month Bills	7.09375	–0.5625
BRUSSELS		
One month	10	+¼
Three month	10	+¼
AMSTERDAM		
One month	5¾	[illegible]
Three month	5¾	[illegible]

	Jan. 10	change
NEW YORK		
Prime rates	9½	Unch'd
Federal funds	7⅞	–⅜
3 Mth. Treasury Bills	7.40	+0.10
6 Mth. Treasury Bills	7.65	+0.19
3 Mth. C D	7.02	+0.07
FRANKFURT		
Lombard	6.6	Unch'd
One Mth. Interbank	4.725	+0.075
Three month	4.676	–0.025
PARIS		
Intervention Rate	8¾	Unch'd
One Mth. Interbank	8{15/16}	–⅛
Three month	0	–{1/16}
MILAN		
One month	15¼	Unch'd
Three month	15⅛	Unch'd
DUBLIN		
One month	10¼	Unch'd
Three month	12	Unch'd

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan. 10)

Three months U.S. dollars		Six months U.S. dollars	
bid 8 1/8	offer 8 1/4	bid 8 1/8	offer 8 1/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Jan. 10	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	12-15½	11¼-12⅛	12⅞-12⅜	12⅝-12¾	12¼-12⅜	12⅛-12½
Sterling CDs	—	—	12{5/16}-12¼	12⅝-12½	12¼-12⅛	12{1/16}-12⅛
Local Authority Deps	10½-11	11¼-11⅞	12⅜	12¼	12⅛	12½
Local Authority Bonds	—	—	13	13	13	—
Discount Mkt Deps	8-11¼	11½	12⅛	12{1/16}	—	—
Company Deposits	—	—	12⅜	12⅝	12½	12⅝
Finance Hse Deposits	—	—	12⅝	12⅝	12⅝	—
Treasury Bills (Buy)	—	—	12{7/16}	12¼	—	—
Bank Bills (Buy)	—	—	12½-12{3/16}	12⅜-12{7/16}	12{3/16}	—
Fine Trade Bills (Buy)	—	—	13	12¾	12⅝	—
Dollar CDs	—	—	8.00-8.05	8.00-8.05	8.20-8.25	8.20-8.25
SDR Linked Deps	—	—	8¼-8⅛	8⅛-8	8¼-8⅛	8⅝-8⅜
ECU Linked Deps	—	—	9⅜-9⅛	9⅜-9⅛	9⅜-9⅛	9⅜-9⅝

Treasury Bills (sell): one-month 12⅛ per cent; three months 12⅛ per cent. Bank Bills (sell): one-month 12⅛-12⅞ per cent; three-months 12⅛-12⅞ per cent. Treasury Bills: Average tender rate of discount 12.1923 per cent. ECGD Fixed Finance Scheme IV reference rate December 4 to January 7 (inclusive): 11.838 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from January 1 1986. Bank Deposit Rates for sums at seven days' notice 6¼-6½ per cent. Certificates of Tax Deposits (Series 6): Deposits £100,000 and over held under one month 11½ per cent; one-three months 11½ per cent; three-six months 11½ per cent; six-nine months 11¾ per cent; nine-12 months 11¾ per cent. Under £100,000 10¾ per cent from January 7. Deposits held under Series 5 11¾ per cent. Deposits withdrawn for cash 7½ per cent.

MONEY RATES

Jan. 10	Over-night	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.35	4.65	4.65	4.55	4.55	5.5
Paris	8¾	9	8{15/16}-9	8⅞	0.9⅛	8¾
Zurich	1{15/16}	3⅛-3	—	3{11/16}-3{13/16}	—	—
Amsterdam	5¾	5⅝-5{11/16}	—	5{11/16}-5{13/16}	—	—
Tokyo	6.90625	7.15625	—	7.09375	—	—
Milan	14¾-15	15¼-15½	—	14¾-15	—	—
Brussels	8.00	9¼-10¼	—	10¼	—	—
Dublin	10¾-10½	11½-11¾	11¾-12	12-12⅛	12-12¼	—

هكذا من الأصل

هكذا من الأصل

SECTION III

FINANCIAL TIMES SURVEY

Nordic Banking

FINANCE AND INVESTMENT

FOR THE last three years the Nordic countries have achieved economic growth rates above those in the rest of Western Europe. But in 1986 this pattern is expected to change, with the region falling slightly behind both the rest of Europe and the OECD (Organisation for Economic Co-operation and Development) average.

The picture varies significantly from country to country in Scandinavia, however. During 1986, Denmark is expected to record growth above the OECD average and Sweden to show one of the most sluggish growth rates in the industrialised world. The sharp differences reflect chiefly varying patterns of investment in the five Nordic countries, Sweden, Denmark, Finland, Norway and Iceland.

These countries, often seen by the outside world to form a homogeneous block in northern Europe, have in fact also pursued rather different economic policies in recent years. This is clearly reflected in their varying economic performances. The December OECD Economic Outlook suggests a rise in GDP (Gross Domestic Product) for Denmark of fully 3.5 per cent in 1986, compared with 2.25 per cent for Norway and Finland, 1.25 per cent for Iceland and only 0.5 per cent for Sweden.

Cultural and linguistic affinities should also not obscure the varying economic structures of the individual countries. Exports from Denmark, the only Nordic member of the European Community, are still heavily dependent on agricultural products, while Sweden places heavy emphasis on engineering and forestry. Finland has its special trading relationship with the Soviet Union, Norway is buoyed up by North Sea oil and gas production, which now accounts for close on one-fifth of the country's GNP and Iceland has a vulnerable dependence on the fisheries industry for 70 per cent of its exports.

Sweden's is by far the largest Scandinavian economy, but its

The Nordic region is about to lose its position at the top of Europe's league table for economic expansion. The picture varies greatly from country to country, however, mainly reflecting a divergence of past investment policies.

Entering a period of slower economic growth

BY KEVIN DONE, Nordic Correspondent

earlier dominant economic role has been reduced by the undoubted successes in recent years of both Norway and Finland which have rapidly caught up in terms of wealth generation, and have gradually managed to rid themselves of their long-lived inferiority complexes.

The steady stream of corporate acquisitions from Finland and Norway in Sweden in the past two years and the reversal of the earlier substantial outflow of labour from Finland to Sweden show that the Nordic economic picture is more in balance than ever before.

Scandinavian financial markets, too, are in a period of rapid change, as credit policies in all the countries become more market-oriented.

The pace of change is different in each country—reforms have undoubtedly gone furthest in Denmark chiefly as a result of its membership of the EEC, and Finland is still lagging behind in the development of new financial instruments and the removal of financial regulations — but the old picture of highly regulated financial markets in the Nordic region is becoming increasingly out-dated.

Mr Kjell-Olof Feldt, Sweden's Social Democratic Finance Minister, admits that "the Nordic countries have a tradition of capital and credit controls and, according to conventional thinking at least, Social Democrats are more apt to regulate than to deregulate."

He insists, however, that "it is time to revise both these ideas. A general process of financial deregulation has got under way in the Nordic countries in recent years, which must be described as quite far-reaching."

In Sweden, Mr Feldt maintains that reforms have been forced by both international and domestic developments. The accelerating trend internationally over the post-war period towards capital liberalisation and the increased integration of financial markets have worked in favour of the liberalisation process in Sweden.

"The Nordic countries being small, open economies greatly dependent on international markets have naturally come under increased pressure to keep pace with this international development," he says.

Developments in the domestic economies have played just as important a role, however, and the large financial imbalances in Sweden, for example, in the form of persistent current account and state budget deficits, have forced a form of deregulation onto the Swedish financial system.

"We have made a virtue of necessity," says Mr Feldt, "because we have seen these pressures as an opportunity to increase efficiency in the allocation of financial resources and thus reinforce other economic measures working in the same direction."

Equally, Nordic financial authorities have finally accepted that increasing regulation has only led to an ever greater distortion in the financial markets, and has made the conduct of monetary policy more, rather than less, difficult.

Partly as a result, the Swedish central bank has taken the two major steps during the past year of removing both interest rate controls and volume controls on bank lending. These moves have been greeted euphorically by an astonished banking industry.

In Norway, also where the monetary and credit system has been more heavily regulated than in almost any other West European country, a minor revolution has been under way during the past two years. New financial instruments and markets are being created, regulations and controls are being reduced and the frontiers have been opened to foreign banks.

Seven foreign banks last year received permission from the Norwegian authorities to start operations, and a similar process is at work in Sweden, where 12 subsidiaries of foreign banks are expected to open for business during 1986.

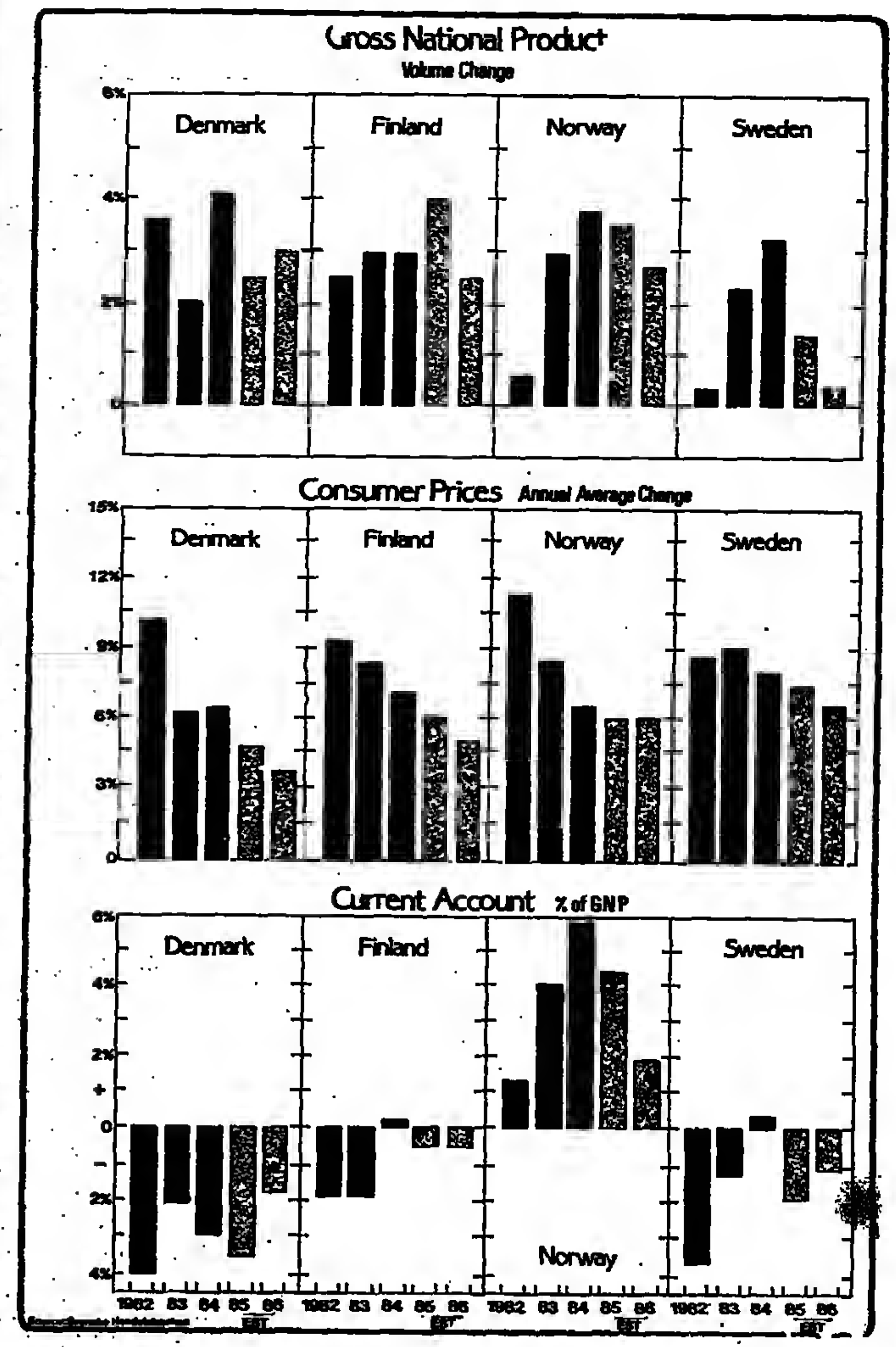
In Norway the extent of regulations reached a peak in 1983 when virtually the entire controllable credit market was subject to direct regulation. According to Norges Bank, the Norwegian central bank, "the regulations were not effective, however, since the credit market showed great inventiveness in channelling credit to meet underlying demand."

Mr Audun Gronn, an economist in the credit policy department of the central bank says, "The result of the policy of control was that it contributed neither to efficient allocation of resources nor to effective control of aggregate demand for goods and services. By 1984 it was clear that the policy of control had had its day."

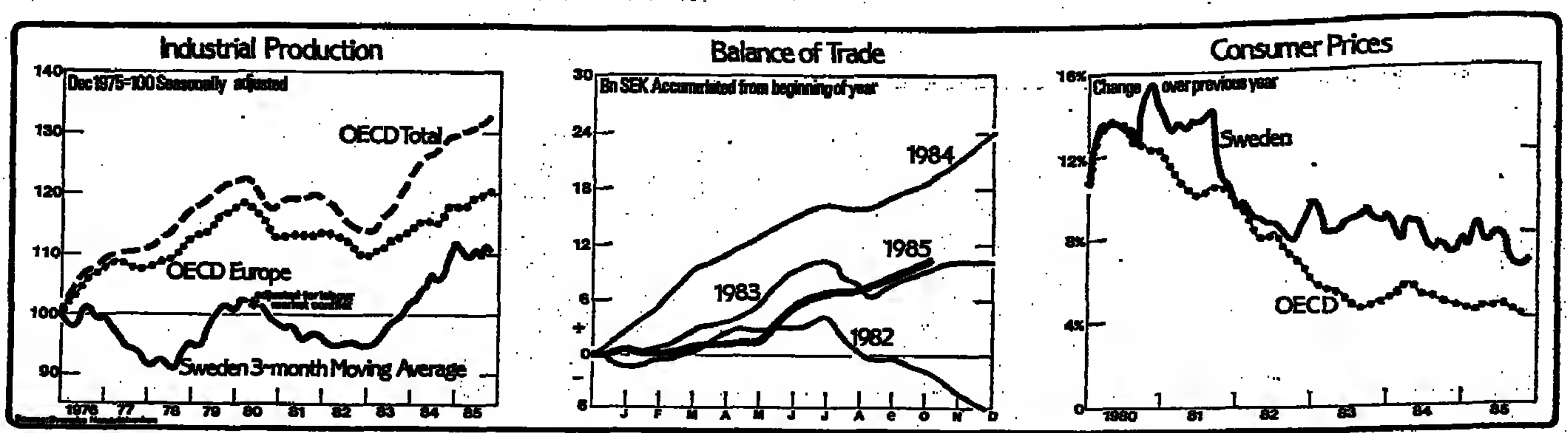
The process of liberalisation has been hurried along regardless of the political colour of the ruling governments in Scandinavia. With a Social Democratic Government in Sweden and a Conservative-led coalition in Norway the result has been the same.

The Norwegian Government of Mr Kare Willoch has deregulated interest rates in similar fashion to Sweden and during 1985 a market in commercial papers has been established. Open market operations in short- and long-term Govern-

CONTINUED ON PAGE 10



Time comes to pay penalty for failure to face realities



Economy

KEVIN DONE

SWEDEN is expected to have virtually the lowest rate of economic growth of any of the industrialised countries in 1986. It appears to be paying the penalty finally for failing to adjust earlier to the much more restrictive economic policies being pursued by several of its most important trading partners.

Swedish inflation rates have remained stubbornly higher than those in competing countries and repeated devaluations have only tended to push the painful adjustment process further into the future.

Despite these problems the economy is comparatively in better shape than it has been for several years, helped by the strong export-led growth of 1983 and 1984. The country still has to show, however, that it can contain wage cost increases at a level that will not continue to undermine its international competitiveness.

Having fought the general election campaign by focusing on past successes rather than present and future problems, Sweden's ruling Social Democrats have had to change their tune somewhat during the past three months.

As Mr Kjell-Olof Feldt, the finance minister, admitted in the Riksdag, the Swedish Parliament, the economic debate had tended during the election to lose touch with certain underlying realities.

"I am willing to admit that we Social Democrats in our more inspired moments described the successes of our economic policies in rather too lyrical terms," he stated.

The Government has chosen to lie low during the months since the election. It has studiously avoided the sort of laborious multilateral discussions it held with leaders of both the trade unions and the employers in the months leading up to the 1985 wage round—the so-called Rosenbad talks, named after the Government chancellery.

Those talks produced apparent agreement on a voluntary 5 per cent wage ceiling for 1985, but in practice wage costs have risen considerably above this level. The December report of the National Institute of Economic Research estimates that hourly wages on average rose by around 7 per cent in 1985 and that the increase for industrial workers was even higher at more than 8 per cent.

Even this rate of increase was only achieved at the cost of postponing some rises—particularly in the public sector—until 1986, however, and the Government is facing a looming 1986 wage round in which there is already a carry-over of 6-7 per cent in the public sector before the new round of negotiations even gets under way.

Recognising the seriousness of the challenge, Mr Olof Palme, the Prime Minister, re-created the post of Wages Minister in his October Cabinet re-shuffle, giving the new minister a brief to oversee pay development in the public sector. But it remains to be seen whether the Government actions in the shape of the 1986-87 budget—to be presented on January 10—will match the words of the new minister in encouraging wage restraint.

Successive Swedish Governments have been unwilling to undertake the process of adjustment needed to correct the substantial imbalances in the Swedish economy if this had to be carried out at the cost of rising unemployment.

When the Social Democrats first regained power in 1982, the focus of their economic policy—the so-called Third Way—was on the country "working and saving" its way out of economic crisis. Sweden's industrial competitiveness was to be regained through devaluation rather than harsher policies of restraint.

The sharp 16 per cent devaluation pushed through in October 1982 did indeed kick the economy on to a new path of higher growth triggered by a boom in exports, but the Government failed to follow through with the second part of the policy, namely the attempt to hold wage costs and inflation in check.

In both 1984 and 1985, inflation has been virtually double the official targets. In 1984 (December to December) prices rose by more than 8 per cent and for 1985 the increase is estimated at 5.5 to 6 per cent.

For 1986 most economic forecasts released in recent months have suggested a year characterised by sluggish growth, falling investment and some increase in unemployment.

Mr Kjell-Olof Feldt, Sweden's finance minister: Willing to admit that successes have been described in "too lyrical terms."

The lower growth could be accompanied by several more positive factors, however, including a further moderation of inflation, a fall in interest rates, and an improvement in the current account of the balance of payments.

In the first half of 1985 it appeared that Sweden's external payments position was again threatening to career out of control, as imports soared and the export boom of the two previous years ground to a halt. The rapid deterioration in the current account triggered a crisis of confidence in the Swedish krona last May and forced the authorities to impose a severe monetary squeeze.

During the second half Sweden's trading performance has stabilised, however, and most forecasts suggest that it should be possible to cut the deficit on the current account during 1986. In 1984 the current account swung into a surplus of Skr 3.3bn for the first time in a decade, but the improvement could not be sustained.

With higher imports sucked in by rising private consumption and a big jump in investment, the trade surplus was halved during 1985 to an estimated SKr 12.2bn compared with Skr 23.4bn in 1984. Chiefly as a result, the balance on the current account of the balance of payments plunged back to an estimated deficit of SKr 11.7bn, according to the National Institute of Economic Research.

In its latest forecast—made in December—the institute suggests that the current account deficit could be reduced again in 1986 to a much more manageable SKr 2.7bn, but some other state agencies such as the National Board of Trade are less optimistic.

The board says that Swedish export corporations are still losing market shares abroad and this will continue to be the case even if the increase in labour costs is kept to 6 per cent next year.

It forecasts a current account deficit of SKr 7.5bn. It says the repeated devaluations have not helped to reduce the underlying imbalances in the Swedish economy and warns that Swedish unit labour costs are rising twice as fast as those of its major trading competitors, particularly in West Germany.

As PKbanken, one of the country's leading commercial banks, points out, however, "How one compares the Swedish economy today depends very much on what one compares it with. Compared with past performance, industrial production is high, inflation is low and unemployment is high. Compared with other OECD (Organisation of Economic Co-operation and Development) countries the position is reversed. The growth of industrial production is low, inflation is high and unemployment is low."

Success far beyond expectations

Options Market

KEVIN DONE

THE all-computerised Swedish options market, launched in June 1985, has shown a spectacular growth in its early months of existence, and its founders are already seeking to sell the market system developed in Stockholm to other countries, including Switzerland.

Trading in standardised equity options has proved highly popular with Swedish investors with early trading volumes exceeding expectations. The launch of this new capital market instrument in Sweden has also been buoyed by the strong bull market in equities during the final months of 1985.

Unlike many of its foreign counterparts, the Stockholm options market is a privately-run company, Optionsmäklarna. It is owned by Carnegie, the Swedish investment company and broker (29 per cent) Investor and Providentia, the Wallenberg investment companies (49 per cent) and Mr Olof Stenhammar, the managing director and driving force behind the exchange (22 per cent).

The trading and clearance functions of the market are fully integrated in a single computerised system.

Trading began on June 12, 1985 in six call options for the shares of Astra, the pharmaceuticals company, Atlas-Copco, the engineering group, Volvo, the automotive, energy and food concern, Doliden, the metals, mining and chemicals company, Svenska Cellulosa (SCA), the forest products company, and Skandia, Sweden's leading leading insurance group.

The criteria for the choice of the first equities was that there should be a big turnover in the stocks — according to Mr Stenhammer there are 25-30 companies that could qualify — and that they should represent a mix of sectors. He says that it is unlikely that there will ever be trading in more than 20 stocks.

During January the options market is being expanded with the addition of Electrolux, Ericsson, Pharmacia and SKF, and in February these newcomers will also be joined by the country's two largest banks, Skandinaviska Handelsbanken and Svenska Handelsbanken. An option in fixed-rate government bonds is also being offered from January.

Following the pattern set by the first ever options market in Chicago, which opened in 1973, Stockholm began trading only in call options, but during January and February trading will be broadened to include put options in all the stocks.

The new market was met with some initial scepticism from many Swedish banks and brokers, which saw the owners of Optionsmäklarna as their competitors. There is still discussion about what form the ownership of the exchange should take in the future, but at least the early scepticism has been overcome. Today some 28 of the 30 possible members of the Stockholm stock exchange are active in the market.

Early doubts were raised by the fact that Optionsmäklarna itself was also one of the market makers, but it gave up this role at the beginning of September.

"At the start we were desperately afraid we would not get enough prices in the system," says Mr Stenhammar. "We decided to be our own market maker to guarantee there would always be prices for every option. Now we have nine market makers and we have given up that function. We have to be neutral."

Optionsmäklarna now confines its own operations to offering the electronic trading and quoting system and the clearance facilities. Mr Stenhammar accepts that the ownership of the options exchange could be altered to a later date. A working group in the Stock Exchange is studying the question.

"It is inevitable that there will be some sort of co-operation with the stock exchange. There could be a change of ownership to give a different sort of neutrality," states Mr Stenhammer.

The initial capacity of the Stockholm options market was modelled on the options exchanges in Chicago and Amsterdam. If the early pattern of Chicago trading had been repeated, Stockholm would have been handling around 200 options contracts a day after six months, or around 700 a day if the pattern of Amsterdam had been followed.

Optionsmäklarna bought computer capacity and hired people for handling 1000 options contracts a day for the first year. "I thought this was on the safe side," says Mr Stenhammar. In fact by August the Stockholm options market was already trading 560 contracts daily and in the last two weeks of November it had jumped close to 5,000.

By mid-December, with stock market turnover reaching record levels, trading in options soared again reaching a volume of close to 9,500 contracts on one day.

"We have had real chaos for the last few weeks," says Mr Stenhammar, "brokers were having to wait for up to two hours to get in touch with us." Six months after the market's opening, its premises are already being re-built and the computer capacity of the exchange is being increased 8 to 10 times.

In the initial six stocks "we have had more than 100 per cent of the turnover of the stock exchange. No other options markets have had that experience," says Mr Stenhammar. The market is creating enough computer capacity to handle 10,000 to 12,000 contracts by the spring of 1986 and by the end of 1985 it has already been expanded to cope with 7,000 to 8,000 contracts a day.

The transaction costs for trading on the Stockholm market are currently around US levels, but Mr Stenhammar has set the target of also beating Amsterdam and having the lowest costs in the world by the end of the year.

Piper plays a different tune

Banks

KEVIN DONE

Mr Bengt Dennis, governor of the Riksbank, which has swept away many of the controls on Sweden's financial markets.

SWEDISH BANKERS used to describing banking as the most highly regulated sector of the Swedish economy are having to learn a different tune. Over the last 12 months the Riksbank, the Swedish central bank, has swept away many of the controls that for years have regulated the Swedish financial markets.

On November 21—a day that will long be remembered by Swedish financial institutions—bankers were forced to search for new superlatives to describe the latest package of Riksbank liberalisation measures which most importantly included the lifting of volume controls on bank lending.

"The biggest event on the credit market for decades," said some observers. "A reform that reverses the development of the last 15 years . . . a rennaisance for banking," said others.

The aim of the new measures is to channel a larger part of credit flows through the regular banking system and away from the so-called "grey" credit market, where interest rates have been much higher and developments have been virtually impossible for the authorities to follow accurately.

The latest package was not intended to change the general level of interest rates or the current tight stance of Swedish monetary policy, but it was aimed at achieving a better functioning of the credit market. "The structure of the market is distorted by prolonged use of lending regulations," admitted Riksbank.

The package which took financial institutione by surprise, included:

- The removal with immediate effect of the existing volume ceilings on lending by banks, mortgage institutions and finance companies.
- The replacement of the existing so-called penalty rate—charged on bank borrowing from the Riksbank ebove a certain level—by an interest-rate scale rising in steps according to the amounts borrowed. That move took effect from December 9.
- The raising of cash reserves requirements from 1 per cent to 3 per cent from January 13 and the halting of interest payments on such funds from the same date.

Following on the decision last May to remove interest rate controls from bank lending, the latest package has given an enormous boost to the process of liberalisation in Swedish financial markets. It promises over time to revolutionise the competitive standing of the banks to the detriment of some other categories of financial institutions, particularly the finance companies which have mushroomed during the recent years of heavy bank regulation.

In 1981 the aggregate outstanding credit and leasing in about 100 registered finance companies totalled around SKr 30bn. By the end of 1984 there were 208 finance companies with outstanding credits of around SKr 45bn.

"We will now be able to drive other institutions out of the market for credit-worthy customers," says Mr Tom Hedelius, managing director of Svenska Handelsbanken. It will take time, however, for the less regulated banking environment to evolve and institutions are still working on new strategies for dealing with the challenge of a much more market-oriented credit and monetary policy from the authorities.

In Sweden old habits die hard and the authorities are still likely to wag a warning finger at the banks, even when in theory they have removed the formal controls, however. In May last year the banks had to beat a sharp retreat when they raised their interest rates — following the abolition of banking lending rate regulations — to levels rather higher than those wished for by the Government.

In recent weeks, too, PKbanken, the third largest commercial bank in Swedn, had to withdraw a letter it was planning to send to its 575,000 customers with wage acounts. PKbanken had intended to offer loans up to SKr 100,000 per customer without security, but the Riksbank decided such a move was at variance with its tight monetary policy stance. The banks are to be allowed to win back market shares from the grey market, but the process will have to occur very gradually.

The central bank does not want to see an excessive increase in total credit volume, and as a precaution has taken the step of raising cash reserve requirements from one to three per cent, which will bite into bank profits and moderate any surge in lending.

Another important part of the latest reform package, the introduction of the sliding interest rate scale for lending by the Riksbank to the banks, is expected to give a considerable boost to activities in the interbank market.

The progressive interest rate scale will range from 10.5 per cent (ie the discount rate) for credits up to 25 per cent of the individual bank's equity to 18.5 per cent for credits in excess of 175 per cent of equity. The system is expected to make the Riksbank's market operations much more effective.

Borrowing at the old penalty rate had previously been possible regardless of amount, which had become a problem for the central bank's conduct of market operations. These should now become more efficient with the sliding scale.

While the Riksbank's latest reform package was widely given a very warm welcome, reactions to the authorities' failure to take action to lift foreign exchange regulations has been sharply critical. After eight years of work, a Government committee that has been studying possible reforms of Swedish foreign exchange controls has proposed only minimal changes to the present system.

Commenting on the report, Grieveson Grant, the London stockbroker, said "after eight years of mountainous labour (the committee) has brought forth a particularly indicrous mouse."

In several other ways Swedish financial markets and the banking sector are going through a period of tremendous changes. This year witnesses the arrival for the first time of the foreign banks in the Swedish banking market as the country becomes virtually the last in the industrialised world to open its frontiers to foreign banking operations.

Some 13 foreign banks have applied for permission to set up subsidiaries in Sweden, two of them in a joint operation. The full list includes five French banks, Credit Lyonnais, Banque Paribas, Banque Nationale de Paris, Societe Generale and Banque Indosuez (in a joint venture with Postipankki of Finland), two US banks, Citibank and Manufacturers Hanover Trust, two from Norway, Den norske Creditbank and Christiania Bank, plus Kansallis-Osake-Pankki and Okobank from Finland and the Dutch Algemene Bank Nederland.

The arrival of the foreign banks in Scandinavia—Norway opened its borders last year and Finland took similar action in the early 1980s—bringing a new wave of competition has forced the Nordic banks to look for innovative solutions to protect their domestic market shares.

It has also contributed to a restructuring of the banking market most recently exemplified in Sweden by the recent merger of two of the country's leading regional commercial banks Sundsvallsbanken and Uplandsbanken. With effect from the beginning of this year the two banks have formed a new institution Nordbanken, which will be the country's fifth largest commercial bank after Skandinaviska Enskilda Banken, Svenska Handelsbanken, PKbanken and Götabanken.

According to the Swedish Banking Association, stiffer competition is one of the main reasons for the far-reaching structural changes. The number of banks in Sweden has dropped sharply as a result of mergers, most noticeably among the savings banks.

In the early 1950s there were around 450 savings banks in Sweden, but by early 1985 the number had dropped to 150 and it is still falling. Among the commercial banks the three largest institutions now account for about 75 per cent of total commercial bank assets, with the remaining 25 per cent shared among the 11 other commercial banks.

Strong recovery after setback

Stock Exchange

DAVID BROWN

"I AM really surprised that the setback wasn't more serious than it was," says Mr Bengt Ryden, director of the stock exchange, pointing to the lacklustre development in share values which followed Stockholm's four year boom which started in 1980.

Instead the exchange moved into autumn and more vigour than most analysts expected, recovering the year's losses and setting record levels of turnover.

By late November, the Veckans Affarer Index stood at 522, up 9.4 per cent from the start of the year.

Moreover, there has been a strong continued net purchase of Swedish shares by foreign institutions, an important source of demand. Net sales to overseas investors reached SKr 500m in October, up SKr 200m from the previous month, and compared with SKr 100m during the same month in 1984.

The total net surplus for 1985 has reached SKr 4bn, compared with a surplus of SKr 1.5bn for all of 1984. Among the strongest listings are AGA, the industrial gas group, the Electrolux white goods maker, and the SKF roller bearings manufacturer.

During the four years starting in 1980, turnover soared from some SKr 3bn to SKr 80bn, the number of listed companies doubled and the share price index climbed some 400 per cent.

"Anybody could see in late 1983 and early 1984 that the prices ceased to reflect the real prospects for many companies," says Mr Ryden, pointing to a number of well-publicised corporate collapses in the oil, shipping and offshore markets.

Another factor that helped stem demand for shares was the recent emergence of an active money market in Sweden combined with interest rates that are still among the highest in Europe.

"When you can get a 14 per cent return without taking a risk, it's difficult for any share to compete," says Mr Ryden wryly.

Indeed, the easing of rates in October and November, combined with strong political pressures for further cuts, has been one important factor in the bourse's recent strength.

Another was the decision last month by the Social Democratic administration to increase the ceiling on a tax-subsidised savings plan for private households. This is an effort to prevent the expected outflow from various bank-operated mutual funds at the start of next year when an earlier tax-subsidised programme expires.

Worsening household economies, heavy taxes and e low sevings ratio has meant that the value of private shareholdings on the exchange has plunged from 40 per cent of the total market to less than 20 per cent in the past decade.

Institutional shareholders—insurance companies, pension and mutual funds as well as foundations—have become an increasingly dominant force on the market.

A dramatic shift in trading patterns has ensued. "Most transactions used to be carried out on the auction market in this building," says Mr Ryden.

Now, only 10 per cent of all turnover is being concluded on the stock exchange floor, with the remaining deals being struck after hours or outside the bourse altogether.

"This expansion of after hours transactions is an indication of the growth of bloc deals and the importance of big institutions," says the stock exchange chief.

This in turn mirrors a much broader shift in the once-orderly Swedish financial and industrial scene, marked by a continued jockeying for position in the post shake-out constellation.

"Until 1980, Stockholm was very much a market for dividends. Today it is a market for power . . . investments have not had short-term profitability as a motive, but rather the building up of positions, new power centres, struggles between different established groups."

Following a series of highly publicised power battles—not least last year—the old power centre of the Wallenburg family has already been partially eclipsed by the emergence of corporate giants like Volvo and Skanska as financial forces in their own right.

"A number of companies are shopping around for owners—instead of vice versa—who have some insight into their industrial process," notes Mr Ryden.

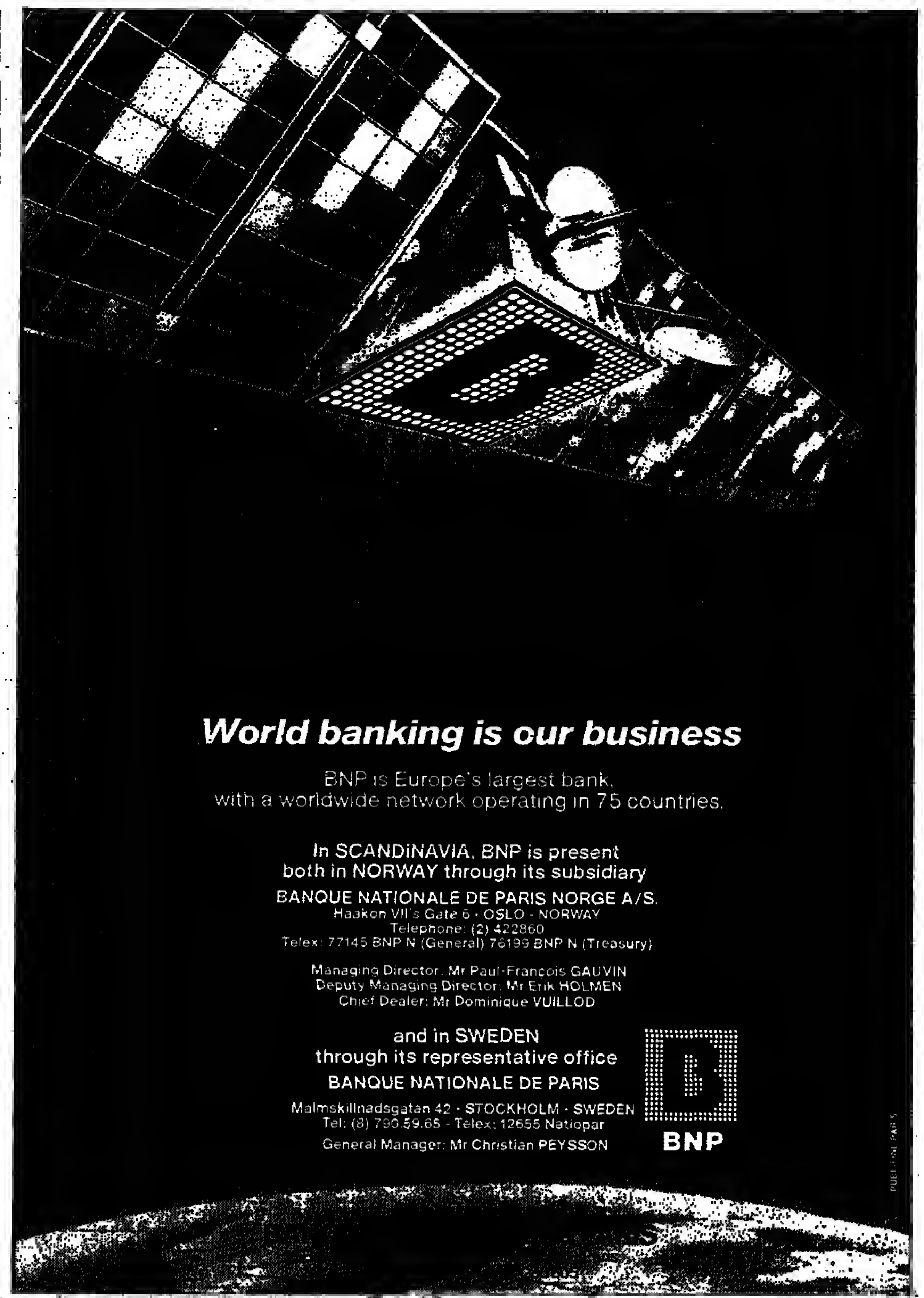
Moreover, entrepreneurial newcomers like Erik Penser and Anders Wall have also established themselves as forces to be reckoned with.

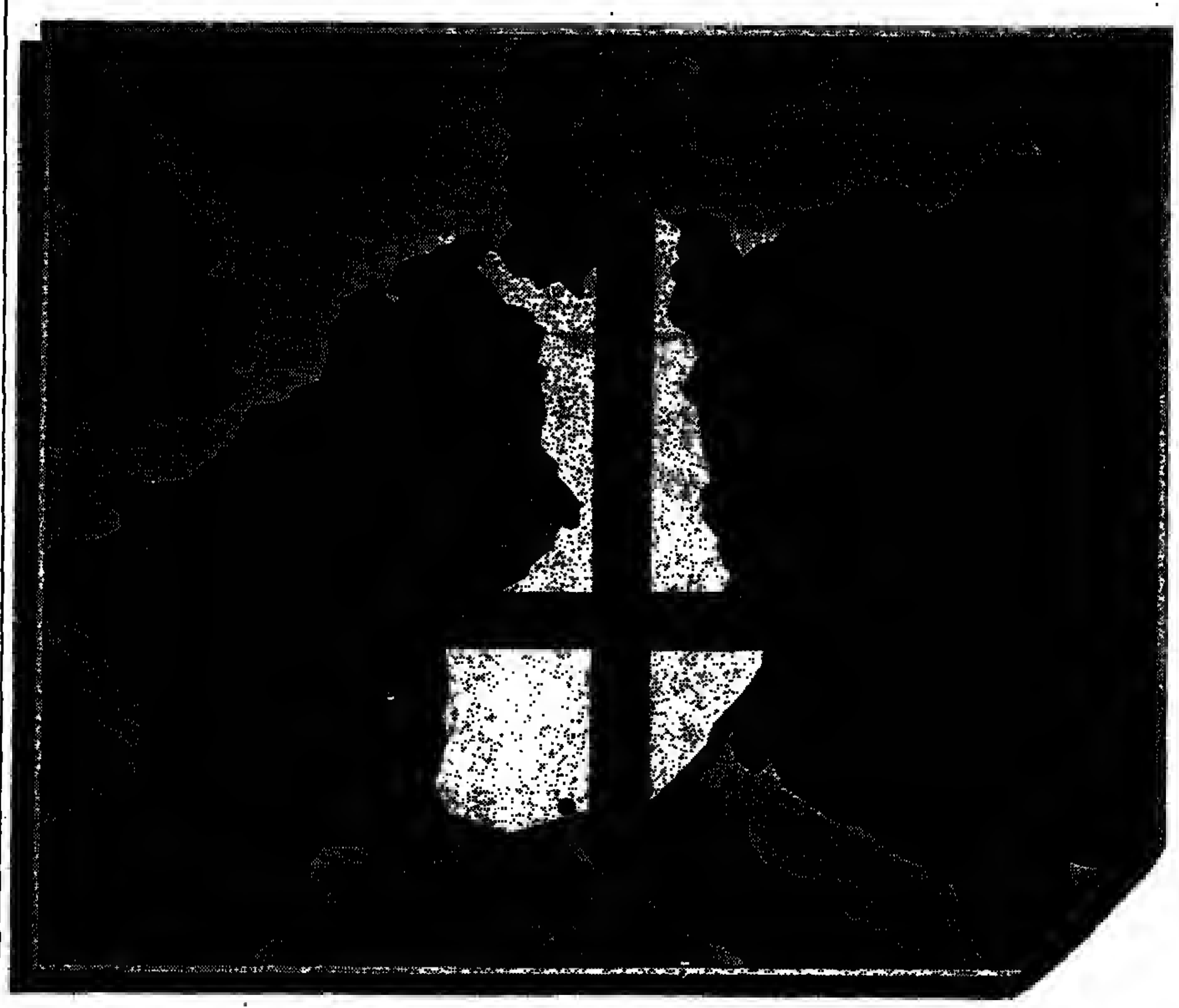
"The property boom of the 1970s and share boom of the 1980s created a new generation of actors. They do not accept the rules of the game because they're not written, they have had to fight their way into the system, and have not been inhibited from using what we could call US imported financial creativity."

This restructuring of the power scene has led to a series of highly complex and controversial network ownerships within the various power "spheres" which have as often been motivated by pure financial or defensive considerations as industrial logic.

"If two companies not only exchange shareholdings but agree not to sell to a third party, you have a very open situation. When too high a proportion of the shares are locked into this type of ownership . . . the markets get too thin."

Indeed, in a clear warning signal, the Government has appointed a committee to investigate and report on the practice of network holdings, although Mr Ryden says he is not "100 per cent optimistic" the situation can be handled through self-regulation.





Real battle waits in the wings

Banking

OLLI VIRTANEN

FINNISH BANKS, while still lacking sufficient means to compete in the domestic market, have nevertheless managed to raise their profile on many fronts.

"The news of the decade," as it was dubbed in the financial community, was the recent takeover of Bank of Helsinki by Union Bank of Finland. This made UBF the country's undisputed number one bank, ahead of its arch rival, Kansallis-Osake-Pankki.

The banks are competing on service and technology, but the real battle, that on interest rates, is still waiting in the wings. It has been the major topic in the country's financial community for at least three years but, while many would like to see competition increase, little has happened.

The main reason why free interest rates have not materialised is that two important banking groups, the saving banks and the co-operative banks, oppose it. They fear that, being small, independent banks, based in the mainly rural areas, they can be crushed by branches of the large commercial banks. Skopbank, the savings bank and Okobank, the co-operative bank, have much looser ties with their banking subsidiaries than UBF and Kansallis have with their branches.

So, the 50-year-old interest rate cartel that was set up by the Bank of Finland in the post-recession years, still stands largely unchanged, although some parts of it, such as interest on cheque accounts and investment accounts for pre-set term, have crumbled.

The interest rate cartel is closely connected to tax free deposits, another unique feature in the Finnish system. As the banks have agreed on their common interest rates and the Government has passed a law on tax free deposits, altering the system is difficult.

One idea, supported by the two commercial banks and the Bank of Finland, is to set a limit to tax free interest on deposits. If the bank pays more, the difference would be taxable.

Another major issue in the Finnish financial circles is the interest rate structure. The Bank of Finland has issued two different interest rate levels, the base rate—formerly discount rate—and the call money rate, which in effect keeps the unregulated money market rates in check. The base rate stood at 9 per cent and the call money rate at 12 per cent in mid-December.

The call money rate, the rate at which the banks can borrow and make deposits with the central bank, was introduced by the central bank to counter the huge grey money market which began to develop in the late 1970s. The rate has come down from 17.5 per cent at the beginning of 1985.

As it has fallen, it has closed in on the base rate, and the central bank aims to abolish the dual rate system when the money markets will allow it.

Meanwhile the central bank came under increasing pressure to lower the base rate as well, and in the second half of last month it was cut to 8.5 per cent. With inflation just below 5 per cent, Finland's real interest rate is one of the highest in Europe.

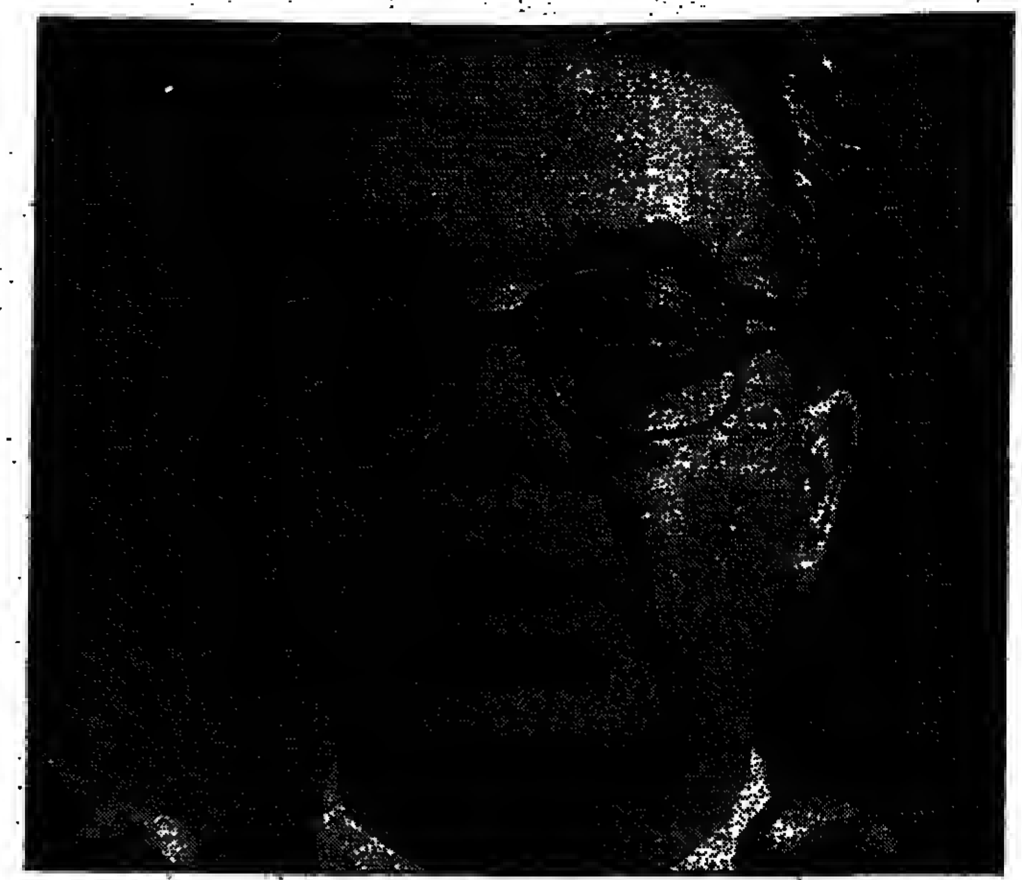
Finnish companies have also taken advantage of the difference in rates. Last year saw a massive amount of applications to borrow abroad. The idea was to borrow at relatively low overseas interest rates and deposit the funds on the unregulated market, which much of the time yielded rates close to 15 per cent.

The central bank turned most of the applications down and subsequently many companies launched bonds and debentures on the Helsinki Stock Exchange. These were directed at foreign investors with the same aim as that already described. In June 1985 the central bank set a indefinite ban on sales of bonds and debentures to foreign buyers on the HSE. This ban is expected to be lifted soon.

Meanwhile, Finnish banks have continued to expand their foreign operations. The trail-blazers, UBF and Kansallis, have now set up branches and subsidiaries to replace partnership in some consortium banks. For example both banks now have their own branches in New York and London.

Three Finnish banks, Kansallis, Okobank and Postipankki (together with Banque Indosuez), recently applied for permission to open branches in Stockholm. Nordic co-operation is naturally important for the Finnish banks and they aim to offer their Nordic expertise both to corporate customers and the large number of Finns working in Sweden.

Another recent feature in the banks' foreign operations has been in the Far East. UBF has had a subsidiary in Singapore since 1980 and Kansallis followed suit last year. Postipankki, the first Finnish bank to set up a subsidiary in London, achieved another "first" by setting up a representative office in Tokyo in 1985.



Mr Rolf Kullberg, governor of the Bank of Finland. The 50-year-old interest rate cartel set up by the bank still stands largely unchanged.

Many a misjudgment

Union Bank Takeover of Bank Helsinki

OLLI VIRTANEN

ALTHOUGH IT seemed very dramatic at the time the recent takeover of Bank of Helsinki by Union Bank of Finland left few people shedding tears for the small commercial bank.

It was not the best run bank in the country. Despite its 72-year history it did not have strong emotional ties with any customer group—with a qualified exception of the Swedish community in Finland.

In Finnish terms the takeover battle was both surprisingly short and straightforward. It was nevertheless full of misjudgements, producing few winners and many more losers.

The whole process was sparked off by BoH itself which, after incurring a FM 49m loss in dollar futures dealings, sold 5 per cent of the bank's shares from its pension fund to the Swedish investor Mr Anders Wall. Then Skopbank, the Finnish savings bank group announced that it held 11 per cent of BoH equity and offered to buy the rest at FM 66 per share.

UBF, which had shown interest in BoH in the past, decided to enter the game whereas its main rival Kansallis-Osake-Pankki chose to stay on the sidelines. In less than five days UBF had accumulated more than 50 per cent of BoH, including Wall's shares and a 22 per cent holding sold by Skopbank, which decided to bow out of the battle.

The price of a BoH share rose rapidly to over FM 100 and Skopbank reportedly sold its holding for FM 112 per share, a deal which netted the bank FM 60m. Anders Wall, cashing in at a lower price, nevertheless profited by some FM 20m.

For UBF and its chairman, Mr Mika Tiivola, the takeover was a triumph. UBF established itself as the undisputed number one bank in Finland, after fighting over the position for years with Kansallis-Osake-Pankki. Prior to the takeover, Kansallis had seemed to be pulling ahead.

Kansallis was not an active participant in the bid battle, only selling the BoH shares in its possession to the highest bidder—which happened to be its main rival UBF. In retrospect, the soundness of Kansallis's strategy has been questioned.

Skopbank, despite its huge profit, also lost face. Its decision to announce publicly its intention while still holding only 11 per cent of the BoH equity was to UBF what a mouse is to a cat. This particular mouse never stood a chance.

BoH directors can also be faulted for not fighting the bids, even though they publicly announced that the takeover attempts were hostile. And no top member of BoH board will now move on to UBF when the two banks are merged.

BoH chairman, Mr Olli Ikkala, will become an independent tax consultant, while the bank's managing director, Mr Kari Nars, has been scouting for a job abroad.

The deputy managing director, Mr Teppo Taberman, has been luckier. He performed well throughout the bid process and was offered a job by Mr Jaakko Lassila, chairman of Kansallis. Mr Taberman took up his post on December 1—the first time Kansallis has appointed anyone from outside the bank directly to full membership of the board.

Mr Taberman's nomination was of key importance as he had built up the domestic customer base of BoH. Kansallis expects to scoop a number of former BoH customers—a consolation prize for losing the leading position in Finnish banking.

Other banks, including the co-operative group Okobank and some savings banks have also enticed former BoH customers and employees and this battle will probably continue through to the end of next year.

Mr Mika Tiivola, chief executive of Union Bank of Finland.

Difficulties loom on export and wage fronts

Economy

OLLI VIRTANEN

THE Finnish economy, which enjoyed a surprisingly long and stable period of growth in the early 1980s, will probably run into the doldrums during the next two years.

At the turn of this decade Finland gradually recuperated from the roller coaster economic cycles of the 1970s and was able to steady the growth rate as well as inflation to reasonable levels. Since 1980 the country's GDP has grown at an annual rate of 3 per cent. Even other Scandinavian countries were unable to keep up such a pace during the world wide recession in 1982.

What Finnish officials, most notably the Bank of Finland and the Ministry of Finance, cherish most is that inflation also came down together with unemployment. The inflation rate will be close to 5 per cent this year, lower than the average for the European countries in OECD (Organisation for Economic Co-operation Development).

The same applies to unemployment. The rate in Finland is about 6 per cent, whereas European countries suffer from an average unemployment rate of 11 per cent.

The reasons for Finland's success can be attributed to three main factors. First it has applied a so called mixed supply and demand side policy. Demand basically calls the tune but this is constantly kept in check by offering carrot and stick alternately.

As public debt, for example, has traditionally been among the lowest in Europe (14 per cent of the GDP at the moment), it has also allowed room for manoeuvre.

Secondly trade with the Soviet Union has "insured" Finns against world recessions, particularly during the oil price increases early this decade. As the trade between the two countries is conducted on a barter basis and as some 90 per cent of Finland's imports from the USSR consists of different forms of energy, rising oil prices provided room for more exports of Finnish technology.

Thirdly, a national consensus on most political and economical subjects has emerged. In politics the parties tend to agree on so many things that voters are hard pressed to make a difference between a moderate on the right from a pragmatist on the left.

In the economy this has been evident in smoother wage negotiations and a more peaceful labour market as a whole. The importance of profitable companies and international competitiveness has dawned on the public in general during this decade. Labour unions, employers, and the state have formed a kind of a "holy alliance" with more or less unilateral goals.

But all that is about to change. On one hand weakening demand in Finland's main export markets—including the Soviet Union—scales down expectations, while on the other there are signs of disintegration of the consensus.

The two-year overall wage agreement will end in February and the negotiations currently under way do not promise as calm a period as Finland has enjoyed during the past few years.

All sides are aiming at a centralised total package for incomes policy for the next two years. In addition to a blanket wage increase and room for individual unions, the agreement would include a comprehensive package of social benefits and tax reductions agreed by the Government.

But a centralised agreement will be hard to reach. Although real wages have grown every year in most groups, differences between individual unions are considerable. Thus parts of the labour force are concentrating more on catching up with other workers (a rubber hand phenomenon) rather than unilateral maximisation of nominal wages.

Perhaps even more difficult is to find room for more Finnish exports. The traditional "safety net" provided by the Soviet Union is now full of holes. The price of oil has declined together with the value of the rouble, which usually follows the dollar. At the same time energy consumption in Finland has dropped considerably.

All this means that this year the total trade with the Soviet Union may drop as much as 10 per cent from the level of 1985. Soviet trade currently accounts for about 20 per cent of Finland's total foreign trade.

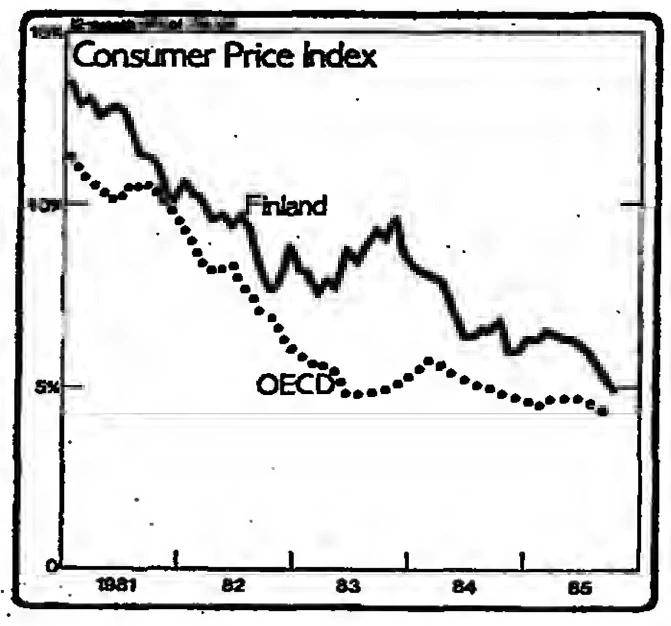
As a recession is also expected in Western countries, Finland's GDP, predicts the Ministry of Finance, may only increase by 1 per cent in 1987.

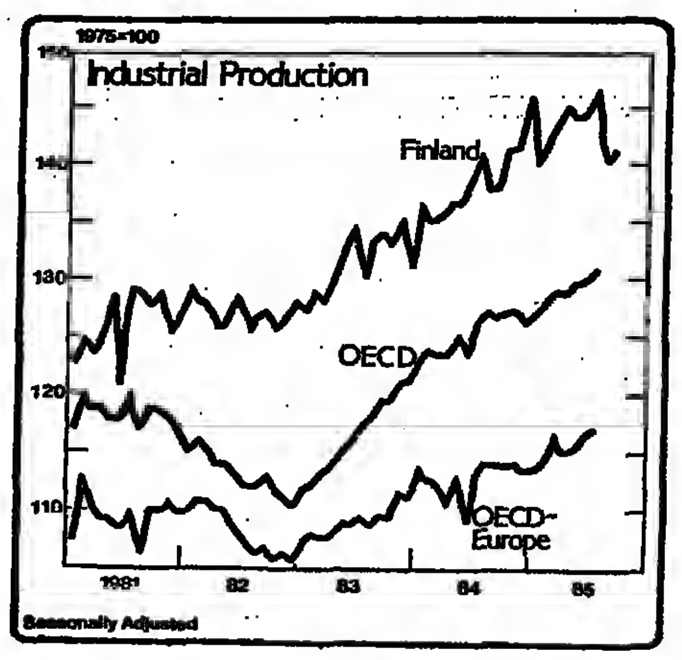
Finland'o important forest industries are already feeling the pinch, and the metal industry and shipbuilding urgently need more orders.

The main emphasis is to patch up the Soviet Union safety net with more trading opportunities with Moscow. New ideas about increasing industrial co-operation are constantly voiced, but very few concrete projects have materialised recently.

Increasing energy imports, most notably natural gas and buying the fifth nuclear power station from the Soviets, have also seen little progress in the past few months.

Finland's minister of finance, Mr Ahti Pekkala. A centralised incomes policy for the next two years will be hard to reach.





Change brings its growing pains

Stock Exchange

OLLI VIRTANEN

DURING the past 18 months or so the Helsinki Stock Exchange has been developed—and criticised—more than during the whole of its 72 years existence.

In October 1984 the HSE finally became a legal entity when it became a co-operative society. Then in October 1985 a code of ethics was introduced to guide operations at the bourse, while in December a new post of managing director was established.

At the same time HSE turnover has risen sharply, mainly thanks to the large number of new bond and debenture issues. In 1980 turnover was FM 700m, last year it topped FM 7.5bn. And tho share index has climbed 2½ times over its level in 1980.

Now tho HSE is developing a new up-to-date information system and plans to introduce new listings and new investment instruments to the market.

Tho growing interest towards the stock market emerged in the beginning of this decade when Finnish economy grew at a record pace and institutional investors, both domestic and foreign, "found" Finnish securities. This was followed by a number of foreign issues and listings in London and Stockholm, by Finnish companies.

Foreign investors found these Finnish shares attractive, premiums on the foreign issues were high and the value of the stock soon rose higher than at home.

But investors wishing to repatriate their holdings soon discovered that there is a limit in liquidity. You can sell only so many Finnish shares without a major effect on prices. Consequently Finnish share prices abroad have suffered a long slide which only now seems to be levelling off.

Another major development in 1985 was the increased attraction of finnmark denominated bonds and debentures. Markka has been relatively strong and more importantly the difference between Finland's high interest rate and low inflation has made investment in Finnish bonds and debentures very attractive.

The stock exchange, however, has also suffered from growing pains, and the new code of ethics came none too soon. Recent takeovers have brought many problems to light. Finland's Prime Minister, Mr Kalevi Sorsa and the Director of the Bank Inspectorate, Mr Jussi Linnamo, have been among the most vocal critics of the HSE recently.

A major cause for criticism is that registration of shares is not mandatory. The point was highlighted during the recent takeover battle for Bank of Helsinki. The two contestants, Union Bank of Finland and Skopbank, did not keep the public constantly informed on the size of their holding in BoH and small shareholders had little possibility to make sound decisions on when to sell and at what price.

The HSE has also failed more than once to observe its own rule to stop trading in a share when its price rose by over 20 per cent in one day.

Furthermore many of the deals during takeover battles were mado outside the stock exchange, giving small shareholders little chance to keep track of developments.

Tho ethics code now defines insiders and the leeway for their operations. It also sets a number of new disclosure requirements on listed companies and stipulates the penalties for breaking the ethical code. The maximum penalty is to dismiss the member from the co-operativo society.

Some experts have questioned whether tho penalties are sufficient and whether the HSE has the power to implement them. On the other hand no large scale frauds have been discovered at the stock exchange, although the occasional jump in a share price just prior to a share issue has sometimes raised eyebrows.

The new managing director Mr Matti Mäenpää, a former deputy chief general manager of Kansallis-Osake-Pankki, the banking group, hopes to bring in fresh ideas and keep operations efficient. One way of doing this will be to introduce a highly sophisticated information system that will both replace the old trading table — which dates from the 1930s — and offer a comprehensive on-line data service to any subscriber.

The present variety of the listed shares, bonds and debentures as well as the OTC (Over the-Counter) list and the unlisted securities market, will be altered if Mr Mäenpää has his way.

The OTC list, for example, was introduced about a year ago and still includes only four companies. When the tax officials have decided on how to treat them, more companies are expected to join tho list.

The unlisted securities market is an oddity of the HSE, as the listings are not bound by any rules. Trading in those securities only takes place when two brokers have agreed on it. Mäenpää would prefer the market to disappear and have the listings moved over to the OTC market.

Completely new securities are also expected on the HSE. At tho moment there are no commercial papers, for example. And various kinds of options could also be traded on tho HSE.

Finish investors could well provide enough capital to keep new securities lively on the Helsinki Stock Exchange. The unregulated money markets have attracted massive sums into high paying deposits and this could well be directed elsewhere given attractive alternatives, for example on the stock markets.

Foreign investors may also return to the Finnish markets as the 20 per cent limit for foreign ownership will probably be raised to 33 or 40 per cent depending on which of the two competing recommendations wins.

External account forces application of brakes

DENMARK'S four-party non-socialist minority administration was forced to apply the economic brakes in December. This followed a strong recovery which began in mid-1983, cut unemployment substantially and set off the biggest increase in industrial investment since the late 1950s.

The recovery, as recoveries will in Denmark, caused a serious deterioration in the current external account, despite a successful incomes policy, which has placed Denmark among the European low-inflation countries. The growth of domestic demand was too strong to allow the hoped-for export-led boom.

The Government's two major policy achievements are its incomes policy and control over public sector spending, which has hardly risen in real terms for the past two years.

These two policies have enabled the Government to declare that the exchange rate is inviolate (as far as possible within the EMS) and laid down the conditions for a decline in yields in the bond market from a peak of 22-23 per cent in the autumn of 1982 to about 10½ per cent today.

With domestic demand recovering fast, inflation and interest rates falling, and government expenditure under control, government actions has had what Prime Minister Poul Schlüter (Conservative) describes as "a sensational" impact on the budget deficit.

The deficit has fallen from about DKr 53bn in 1982, which was over 11 per cent of the GDP, to a projected DKr 14.5bn in 1986, which will be about 2 per cent of next year's GDP.

The consolidated public sector will probably be in surplus next year, for the first time for a decade. If the brakes do not have to be applied too vigorously in the future to control the external account, the Government should have no difficulty in meeting its promise to abolish the budget deficit by 1990.

It will be more difficult for it to bring off its other promise, to bring the current balance of payments into equilibrium by 1988. It is not so much that exports have performed badly, just that imports have surged ahead even faster.

The value of merchandise exports increased by 12.4 per cent in 1984, but imports rose by 15.6 per cent. In the first 10 months of 1985, exports were up by 9.7 per cent, but imports by 11.7 per cent. A trade deficit in 1983 of DKr 2.8bn widened to DKr 7bn in 1984 and will be about DKr 10bn in 1985. The current balance of payments deficit has increased from DKr 11bn in 1983 to about DKr 22bn in 1985.

With a net foreign debt of about DKr 230bn, or about 38 per cent of the gross domestic product, the external deficit has to be taken seriously, but despite the evidence over the

Economy
HILARY BARNES

past year that the trade deficit was steadily increasing, the Government was loathe to take action which might damage business confidence again.

In December, however, it introduced a series of measures which will cut domestic demand by about DKr 5bn, or rather more than 1 per cent of GDP. Higher energy taxes, to keep prices to the consumer high after the decline in oil prices in 1985, will soak up about DKr 3bn, but the building industry, in which wage rates have been rising fast, will take the brunt of the December measures, which include severe steps to curb public sector investment in 1986 and restrictions on mortgage credit.

The Government forecasts that these measures will help to bring the current balance of payments deficit down to DKr 16bn in 1986 (and if oil prices fall significantly, the deficit could be considerably lower). But GDP growth will stay at about 3 per cent, with private consumption rising by about 2 per cent, business investment by 9 per cent and exports by almost 6 per cent.

The growth rate will be high enough to allow unemployment to fall to an average of 250,000, or about 8½ per cent, compared with a peak average annual level of 10.7 per cent in 1983, according to the Government.

Hourly wage rates appear to be rising by about 4½ per cent compared with the previous year, which is considerably more than the 2 per cent a year norm laid down by the Government in its statutory incomes policy settlement in the spring of 1985. It is nevertheless consistent with a fall in the 12-month rise in consumer prices from about 3.9 per cent (October 1985) to about 2 per cent by the end of 1986.

Major changes have also taken place in monetary policy under the present government, amounting indeed to a change of monetary regime.

The two key factors in the change are the affirmation of a removal of almost all controls on capital imports and exports.

As long as there were restrictions on capital flows, the authorities could control the money supply. Without these restrictions, and with a fixed exchange rate regime, money supply is almost entirely demand-determined and domestic interest rates on long-term capital are determined by international rates, especially for the dollar and the D-mark.

With inflation still falling fast, there seems to be a realistic expectation for yields in the Danish bond market to move down further towards yields in the German long-term market over the next few months.

There have been two main measures to liberalise capital movements, the lifting in 1983 of the ban on foreign buying of Danish government bonds and the reduction in July 1985 in the minimum maturity of business investment loans abroad from five to one year.

About DKr 30bn worth of Danish bonds are now held by foreigners. Since July, business has switched substantially from krone to currency loans, which has helped to nudge domestic interest rates downwards in the second half of the year.

Also last summer, the National (Central) Bank introduced a new system of credit control. It lifted the ceiling on bank advances, operated in various guises for the past 15 years or so, and switched to controlling deposit growth through a system of special deposits, which inhibits competition for deposit growth.

At the same time a market in bank certificates was introduced, which gives the National Bank a more flexible instrument for controlling the liquidity of the system on a day to day basis.

Subjected to a barrage of reforms

DANISH financial markets are being subjected to a barrage of changes. These include those in monetary policy and credit controls, liberalisation of foreign exchange regulations, through to coming reforms of the stock exchange and the income tax system, changes in the market for pension savings and a loosening up of the barriers between the main financial sectors such as insurance and mortgage credit.

None of this is causing an undue loss of sleep among the banks for, as Mr Tage Andersen, chairman of the Bank Association and chief general manager of Danske Bank, put it, in comparison with what is happening in some international financial centres "our efforts to leap the barriers between the various financial institutions are modest and fairly harmless."

In the short-term, the country's 80 banks and 150 savings banks (there are not only many of them, they also have a large staff, employing over one per cent of the total population, almost double the proportion in other comparable countries in Europe) are sitting pretty.

They will report record profits in 1985, with a small share of the improvement coming from operating profits, but the bulk arising from unrealised gains on bond and share portfolios, reflecting a fall in yields in the bond market from about 12.9 per cent at the end of 1984 to 10.5 per cent at the end of 1985.

Realised or not, however, taxes have to be paid on these profits—the tax rate was raised from 40 to 50 per cent in 1985—and as rising bond prices in 1985 means less room for price improvements in future years, hardening competition for ordinary business will present the banks with an uphill struggle to maintain profits.

Meanwhile, the banks are having to adjust to a catalogue of important changes, which either have taken place or are about to take place. These include:

- The ending last July of controls on bank advances and the introduction of a system of special deposits, designed to restrict competition for deposits. The measure gives the banks greater freedom to manage the asset side of the balance sheet and to win back market shares from the grey market, but as the system will penalise banks with rapid deposit growth, the longer-term effect will be to inhibit competition.
- The insurance companies are moving in on the banks' patch. The three biggest insurance groups, Hafnia, Baltica and Topsikring, have set up holding companies which own the majority of the shares in the insurance companies. This enables them to get round legislation restricting insurance companies to doing only insurance business. Baltica has bought a majority in a stockbroking and private banking firm. Topsikring has set up a bank, Topbank, to offer loans to its 700,000 policyholders. It will operate from a single central office and will not offer other banking services.
- Finance companies have also moved into the banks' traditional sphere of operations. Difko, a leasing company, has set up an investment bank. Nevi Finance (which is Norwegian-owned) has acquired a majority in a stockbroking firm. It is also offering loans to clients of its various activities (Nevo owns the Danish Diners Card operation).
- In 1987, an important income tax reform is to take effect. The general effect of the reform will be to make it more attractive to save and less attractive to borrow. Income earned on financial capital will be taxed at 50 per cent and interest outgoings on borrowed money will be deductable for taxes purposes at 50 per cent. At present, income on capital is taxed at marginal rates of up to 73 per cent (78 per cent for wealthy taxpayers) and tax-saving from interest on debt is also up to 73 per cent.
- A reform of the stock exchange is on the way. The key change in the proposals put forward by the Industry Minister, Mr Ib Stetter, will allow any one to set up a stock broking firm, as long as it is organised as a private limited company and has a minimum share capital of DKr 5m. At present stockbroking is the monopoly of 26 firms. The banks, to take an important example, have no access to the stock exchange.
- The LO (Landsorganisation—TUC), the blue-collar union cartel, is pressing for a system of pension savings for its members, who at present are only entitled to the national old age pension. This is expected to create a new savings market in which the financial institutions will battle for a stake. The reform, however, may not be realised for the next year or two.

Financial Markets
HILARY BARNES

Only one major structural change took place in the banking world last year, in the wake of the collapse of Kronebanken, the country's ninth largest bank/savings bank, in December, 1984, when it was found that its losses far exceeded its equity capital and reserves (which in Denmark must be a minimum of 8 per cent of deposits and guarantees).

Speedy action by the Government, the National Bank and the three largest commercial banks (Copenhagen Handelsbank, Danske Bank and Privatbanken) saved depositors and, as it turned out, shareholders from losses. Last summer Kronebanken, with a branch network on Zealand, was taken over by Provinsbanken, which is based in Jutland, to become the sixth largest bank with a balance sheet total of about DKr 30bn.

Over the past decade or so, a gradual process of liberalisation in capital market and foreign exchange regulations has generated a much more competitive climate in banking. This has shown up in the form of greater discrepancies in bank earnings in the past few years.

Copenhagen Handelsbank has fallen behind its eternal rival as the country's largest bank, Danske Bank, and Privatbanken has also had a run of years with relatively moderate earnings.

SDS, the largest savings bank, is the fourth largest bank by balance sheet total. It has put up a sound performance since 1975, when changes in legislation placed the banks and savings banks on an equal footing. It has gained a useful slice of the corporate market (from which, prior to 1975, the savings banks were almost completely excluded) and established a profile internationally, both through its presence in the Euromarkets, where it has performed as lead manager for several Ecu and Eurokrone loans, and through its London subsidiary, London Interstate Bank, and repesentative offices in Singapore and Tokyo.

Jyske Bank, the Jutland flier, has been the fastest-growing bank of the decade and its balance sheet is running neck and neck with Andelsbanken's which has its roots in the argricultural co-operative movement.

But in the first half of this year, Andelsbanken put up a strong performance, with operating earnings achieving a 31.5 per cent return on equity, compared with 22 per cent by Danske Bank, the next best performer, and 10 per cent by Handelsbank.

From now on it is operating earnings, and not gains on bond portfolios, which will be crucial for overall profitability. Andelsbanken's performance was a promising omen.

Deregulation will open doors wider

Stock Exchange
HILARY BARNES

THE DANISH stock market was rejuvenated by the return of the present non-socialist government in 1982 and the policies for economic recovery which it introduced.

The market boomed in 1983, dipped slightly in 1984, but ended 1985 with the share price index up by 44 per cent over the year at a record 239.31, a rise of 140 per cent from the end of 1982.

Turnover in shares also established a record at DKr 2.9bn in 1985. There were 19 new listings, raising DKr 1.4bn, as well as other new share issues worth DKr 3bn.

Average price earnings ratios for Danish shares are now so high that banks and brokers are recommending clients to look at investments abroad as an alternative to those in Denmark. This suggests that share prices may level off in 1986, but one of the fundamental factors behind the recovery in share prices will not change.

In 1983 the Government introduced a tax on the interest income of pension funds and life insurance company funds based on a formula which restricts fund earnings to a real (after-inflation) return of 3 per cent a year. Share investments were exempted from the "real interest tax," however, which ensures continued strong demand for shares from these institutional investors.

The main topic of interest in 1986 will be a proposed reform of the Stock Exchange. A main point in the proposals will be the abolition of the monopoly of trading on the Copenhagen Bourse, which is at present held by 26 broking firms.

In future, anyone will be able to set up a broking company, in the form of a private limited company, as long as a minimum equity capital requirement is met (probably DKr 5m). This will give access to the bourse to, among others, the banks and insurance companies.

The other major innovation will be the introduction of an electronic trading system, enabling all parties to follow trading, prices and quantity instantaneously. The electronic system will be introduced on a trial basis in 1987, according to present plans, which assume that the legislation for the reform of the stock exchange can be introduced by the Minister for Industry, Mr Ib Stetter, this spring and will reach the statute book before the summer holidays.

One issue which remains unresolved is whether share certificates should cease to exist as a physical entity and become an electronic registration with the securities registration centre, a system which has already been introduced for bonds.

Electronic registration would solve the administrative problems associated with physical certificates, but some potential investors, it is argued, may not like the idea of their transactions being listed in a public register.

The biggest of the new issues in 1985 was through the privatisation of Kryolitselskabet, a company founded in the 1930s to mine cryolite in Greenland and in which the state held the equity. The flotation in December raised DKr 750m.

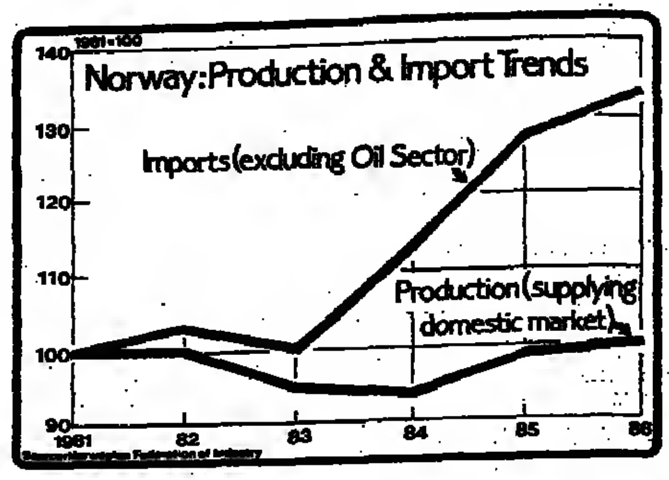
One of the most intriguing flotations was by the Swedish car-dealing company, Bil Lspedition, which chose to make an issue in Copenhagen as the gateway to foreign capital.

The big event of 1986 will be the flotation of Nordiske Gentofte in the autumn. Nordiske is Denmark's latest high-flier in the pharmaceuticals business. It is the world's number three producer of insulin after Eli Lilly and Novo, but its hopes for future growth are pinned especially to a gene-spliced human growth hormone, which it plans to put into production this year.

NORDIC BANKING 8

Norway

Showing signs of serious overheating



Economy
FAY GJESTER

AS 1985 ended, Norway's economy was running at full throttle, and showing many signs of serious overheating.

Private sector consumption—seven per cent np on a year earlier—was rising three times as fast as in the rest of Europe. Wage and price inflation was also well above the European average, and bank lending—despite high interest rates—was soaring out of sight of Government guidelines.

In the 11 months to the end of November it had grown by NKr 45.2bn—compared with the official ceiling of NKr 33.9bn. On the other side of the coin, personal saving was at its lowest rate for 12 years.

An economic survey published by the Federation of Industry in mid-December pointed out that Norwegian industry was losing market shares both at home and abroad; imports were rising faster than exports and foreign manufacturers were reaping most of the benefit of the steep rise in Norwegian demand.

The competive position of industry in Norway, compared with that of its main trading partners, had deteriorated further in 1985—by an estimated ona per cent. This had occurred despite the 2.2 per cent average devaluation of the Norwegian krone—vis a vis these countries' currencies—which took place from 1984 to 1985.

At a news conference to mark the report's publication, Mr Knut Lofstad, the federation's managing director, was highly critical of the Government's economic policies, which—he claimed—were not adapted to the country's economic situation.

"Norway is out of step, and measures are being adopted for their short-term effect—for instance, in connection with the budget—which will block the achievement of longer-term goals," he stated.

The Government was not the only target of Mr Lofstad's censure. Implying that employers had been too liberal in granting local pay rises, he said he hoped that the employers' association would soon "put its foot down" in order to bring wage trends more into line with productivity.

The federation's report foresees lower growth, this year, than that forecast by the Government in its final version of the 1986 budget, also published last month. It puts the increase in the GNP at only about two per cent, compared with the Government's figure of 3.25 per cent. It predicts, too, that industry's total profis last year will prove to be ebout 10 per cent down on the record of NKr 11.5bn achieved in 1984, and that they will fall further this year.

This reflects the fact that demand and prices for some key Norwegian products (such as cellulose and ferro alloys) peaked in 1984, and have since been weakening.

The lower GNP forecast is based on tha federation's assumption that the rise in private sector consumption will slow this year—to only about 2.5 per cent. The Government pnts the growth from 1985 to 1986 at 4 per cent. This indicates, the federation points out, that the finance ministry expecs wages to grow much faster than the rate of 4.5 per cent which ministry economists say must be the limit, if Norwegian competitiveness is not to deteriorate still further in 1986.

1985 wage increased in Norway averaged around 8-9 per cent. The industry federation hopes it will be possible to bring the average down to 5.5 per cent this year. The sharp fall in oil prices could virtually eliminata the surplus on Norway's balance of trade in 1986.

This, coupled with industry's falling profitability, is likely to induce a more sober mood all around, it believes. But it still expects the inflation rate—which has fallen each year since 1981—to accelerate this year to 6 per cent plus, compared with an average of about 5.7 per cent in 1985.

The rise in industrial output, estimated at 2.5 per cent from 1984 to 1985, is expected to slow this year to only 1.5 per cent.

One factor hampering production growth is shortage of labour. Last year the number of unemployed fell from October to November—a month which normally shows a seasonal rise. It dropped by 2,000 to 38,652 et end-November, corresponding to 2.3 per cent of the labour force.

The industry federation says its mebers have noted shortages of both skilled and unskilled workers. To attract employees to the companies and sectors of industry which are the most profitable, and offer the best growth prospects, it advocates greater differentiation of wages than now exists—possibly by the introduction of profit-sharing schemes.

It stresses, however, that such schemes would have to work both ways—that is, employees would have to accept pay cuts in periods when their company's earnings dropped. The chances of getting Norway's powerful trade unions to accept any such arrangement are remote.

The coming spring will see the renegotiation of the "framework agreement" on pay and conditions concluded—normally every two years—between the Employers' Association and tha LO, Norway's largest trade union federation. It affects around 300,000 workers, about a fifth of the country's labour force, and is a trend setter for other groups.

This year the LO has announced that it will press—with strike action, if necessary—for the general introduction of the 37½ hour week, already standard for white collar workers. This in itself represents a pay rise of 6.7 per cent, well above the finance ministry's 4.5 per cent guideline (the blue collar working week is currently 40 hours). LO members now enjoying a 37.5 hour week are unlikely to accept a wages standstill. The scene would seem to be set for another round of inflationary pay increases.

The Oslo newspaper Dagbladet commented recently that Norway seemed to be "driving to hall in a first class carriage." Just about everyone was to blame, it argued—"The Government, because it refuses to revise its taxation policies, despite the insane growth in consumption. The employers and unions, because incomes policy is out of control. The banks, because they are ignoring credit guidelines. And finally, the Opposition, because it is fanning the flames under an overheated boiler."

A return of optimism

Stock Exchange
FAY GJESTER

NORWAY's prolonged stock exchange boom, which since early 1983 has been pushing turnover and share indices to a succession of records, appeared to falter in mid-December, partly reflecting worries over a threatened cabinet crisis in connection with approval of the 1986 budget.

Optimism returned when the crisis was averted, but on December 17 the sector indices and the all share index were still down—although not by much—on the highs for the year achieved about a month earlier.

Observers who expected the weaker trend to persist cited the following negative factors affecting the market:

● Many investors have financed share purchases with borrowed money, and will he forced to sell quickly, if prices keep falling.

● Price and wage inflation in Norway are weakening industry's competitive position.

● The economic upswing has peaked and will either flatten out or go into reverse.

● The minority right-centre coalition government is unstable and could fall apart, paving the way for a Labour/Socialist administration.

● The number of large operators on the market has risen, and with significant blocks of shares concentrated in relatively few hands, the danger of a prices slide is greater than when shares are spread among a large number of investors.

● Following the explosion of bank lending in 1985, the Government will act to curb the flow of easy credit (which has helped fuel the stock exchange bull market).

● In February and March 1985 the market experienced a two-month setback that pushed prices down by about 10 per cent. The same thing will happen this year but earlier in January.

● Prices could collapse on the New York stock exchange, pushing European markets downwards.

Optimists, who regarded the December hiccup as only a temporary "correction," give the following reasons why the new year will probably see a further market upswing:

● Norway's economy is still in high gear, with many companies earning good profits.

● The Government and a majority of the Storting (parliament), believe in the value of a thriving stock market.

● New takeover bids will stimulate demand.

● Norwegian banks and industrial companies are still very reasonably priced, by international standards.

● Norsk Hydro's debut on the New York stock exchange will be a success, further boosting the price of the group's shares.

● The volume of new issues will be limited, so that the market will not be under pressure from this quarter.

● Norwegian unit trusts—which benefit from a tax relief scheme that favours this type of investment—will have attracted even more funds in 1985 than they did a year earlier.

● The Dow Jones will keep rising, pulling European markets up with it.

However, whichever way the Oslo market may go this year, 1985 set several records. Turnover in the first eleven months reached NKr 28.9bn, compared with NKr 18.7bn in January/November 1984 and NKr 20bn for 1984 as a whole. The valoe of the 154 companies quoted on the market on November 9 stood at NKr 77bn, against NKr 16.7bn for the 113 that were quoted at end-1982, before the almost three-year bull run got under way. (Most of the newcomers are quoted on the special stock exchange—Bourse II—stablished in 1984 for smaller companies).

As elsewhere, the Norwegian stock exchange boom has been accompanied by e wave of mergers, takeover battles, corporate raiding and not a little insider trading. New companies have been launched onto the market, attracted brief, hectic investor interest, often based on wildly over-optimistic result forecasts—and then their shares have plunged, leaving e few unlucky people a good deal poorer. On the whole, however, the prolonged bull market has meant that the winners have far outnumbered the losers.

Many ordinary Norwegians dislike certain aspects of the boom—particularly the instant fortunes made by the sharpest operators (when working people are being told to moderate their wage claims, for the sake of Norwegian competitiveness), and the way major companies, employing thousands, have changed hands overnight. There have been calls for reform, and a draft bill to regulate the stock exchange is now in the pipeline.

Last month the LO, Norway's TUC, put forward its own tentative reform proposals. These include restoring the tax on profits from share sales to 50 per cent—it was cut to 30 per cent four years ago, soon after the defeat of the last Labour government; introducing a two per cent levy on share trading, and abolishing the tax break for investors in unit trusts.

Lending surge a threat to liberalisation

LAST YEAR'S explosive rise in bank lending may force Norway's authorities to throw into reverse—at least temporarily—the liberalisation of finance markets which they have been implementing, step by step, over the past two years.

The thrust of this policy was to move away from quotas and ceilings and towards a more market orientated system, in which the movement of interest rate levels, combined with the market operations of the central bank, would adequately regulate credit demand and supply.

By the end of 1985 the increase in bank lending had been out of control for many months. Lending seemed likely to grow by around NKr 50bn in the full year, compared with the Government's (revised) guidelines of NKr 33.9bn (the original 1985 guideline, laid down in October 1984, was NKr 19bn).

Mainly, the rise was a result of the Government's expansive fiscal policy — a vote-winning strategy which the rather fragile minority coalition lacks the political will to alter, although the dominant Conservative Party is well aware of its shortcomings.

The budget for 1986 provided for an even steeper rise in public sector expenditure than the pre-election budget for 1985. The Bank of Norway estimates that government spending (exclusive of petroleum-related investments) will this year account for 51 per cent of the GNP (gross national product), compared with 50.7 per cent in 1985 and 49.7 per cent in 1984.

With government fiscal policies reinforcing the general economic upswing, so that employment, wages and prices were all moving upwards, consumers had few qualms about increasing their debt. Other factors stimulating loan demand were Norway's tax system (which makes all interest expenses tax deductible) and the banks' caution about raising interest charges, despite their newly-won freedom to do so.

Last September, the Government abolished official guidelines regulating the rates banks and insurance companies may charge on advances to customers. One of its main reasons for doing so, according to Mr Rolf Presthus, Finance Minister, was to curb the rise in bank lending.

However, the two to three percentage point increases in consumer credit rates that were made in the final quarter of 1985, while they benefited bank profits during the period, had no visible impact on demand for loans. The banks were in even less of a hurry to raise rates on loans to the corporate sector, where competition for business is keen. Norwegian interest rates are already among the highest in Europe.

Also important in boosting loan totals was the banks' own eagerness to lend—evidenced by lavish advertising campaigns offering instant cash to all comers. It represented a striking shift in attitudes since the time — only a couple of years ago — when the same banks were rationing credit, and encouraging customers to open accounts and save regularly, because this would — after a time — give them the right to negotiate a loan.

This aggressive marketing has recently come in for sharp criticism from official quarters. A few weeks ago, Mr Morten

Banking

FAY GJESTER

Steenstrup," deputy finance minister, told a seminar: "The banks should do more to explain how expensive it is to borrow money. Nowadays all they tell us is how easy it is to borrow."

The governor of the Bank of Norway, Mr Hermod Skånland, has for years been a dogged critic of expansive fiscal policies, inflexible interest rates, and tax breaks which encourage borrowing. Writing last month in the Bank of Norway quarterly *Penger og kreditt*, he said these three factors were still the main causes of the bank lending boom.

"But we believe that in addition the banks' own effort to increase their lending totals, and maintain their share of the market, has had an impact, and that it has affected total demand, thereby contributing to inflationary pressures," he stated.

Quite a few banks, he claimed, were trying to talk their customers into borrowing "as much as they could swallow." Over the longer term, he warned, this policy could bring the whole banking system into disrepute. When the downturn came—as it eventually would—and many borrowers found it difficult to meet their loan commitments, the media would have more sympathy with "the little man who had to move out of the house that he should never have bought than with the bank which raised interest rates and demanded that the loan be serviced."

The banks should warn their customers, said Mr Skånland, that interest rates might rise, and that the tax system might be changed so that they would have to meet more of the interest cost themselves, "without help from the public purse."

As the year ended, however, it looked highly likely that the Government would take action to curb the lending spree. Finance minister Mr Rolf Presthus has the instrument he needs in Norway's recently revised Credit Act. Changes in the Act approved last month by the Storting (parliament) have increased from 15 per cent to 20 per cent, the maximum reserve requirement the authorities can impose, and widened the basis on which this requirement, and bond investment obligations, are calculated.

In future insurance companies and pension funds, as well as banks and finance companies, may also be subject to reserve requirements. Other amendments extend the Government's powers to regulate directly lending by banks and other credit institutions.

Minimum reserve requirements for most Norwegian banks (north Norwegian banks are excepted) have been at 15 per cent since July 1. Since the reserves have to be invested in low-interest treasury bills this hits banks profits, and an increase to 20 per cent would be highly unpopular.

By itself, however, it would not necessarily lead the banks to curb their lending. Last year's expansion took place despite high reserve requirements. The banks themselves have suggested that this instrument would be more effective if, instead of being calculated on the basis of a bank's total liabilities, it was based only on the increase of these liabilities. That would be a real incentive not to expand lending. It is a measure that Mr Presthus could well decide to employ.

Certificate market in Norway (NKr m)

Amount outstanding as of October 31 1985

	Gross amount issued as of 31.10.85	Still valid for — less than 1 month	1—3 months	3—6 months	6—12 months	Total
State certificates	28,720	1,723	1,442	2,562	1,911	7,638
Bank certificates	1,106	51	135	161	111	458
Finance certificates	4,152	85	451	866	1,065	1,467
Loan certificates	2,310	750	390	275	780	2,085
	36,288	2,609	2,328	3,864	3,847	12,648

Source: Penger og kreditt (published by Bank of Norway)

Further volume increase is in prospect

IT ALMOST looks as though investors are prepared to buy Norwegian Crowns at any price. Despite interest rates some three to four percentage points lower than those on the domestic market, a small but thriving Eurobond sector has grown up in Norwegian currency.

New issue volume in 1985 is set to total NKr 1.65bn, well above the NKr 1.25bn in 1984 and the prospects are for a further increase in 1986.

The market owes its origins to Norway's substantial foreign exchange revenues from oil and gas exports which have helped boost its currency and led to a current account balance of payments surplus in each of the past five years.

Paradoxically, however, the tight regulations imposed by the Ministry of Finance in Oslo have meant that its economic function has been to add to capital imports rather than offset the payments surplus with the export of capital abroad.

Since November 1984 foreign purchases of domestic Norwegian bonds have been banned and even before that they were heavily restricted. Yet demand for such paper is strong, particularly among retail investors in Germany who regard the Norwegian currency as a safe bet, offering a higher rate of return than D-Mark investments.

The fact that the Eurobond market is the only vehicle available to them explains why interest rates there are much lower than those on domestic Norwegian paper itself.

According to Mr Steiner Sorbotten, Director General at the Finance Ministry, the Euro-

Crown Capital Market

PETER MONTAGNON

crown market offers Norwegian entities an opportunity to raise finance abroad without incurring foreign currency risk.

But he adds that the market has to be carefully regulated because the Norwegian economy is small and its currency could fall prey to violent speculative swings if internationalisation went too far.

Only a narrow and strictly defined range of borrowers are permitted to use the market. Predominantly these are Norwegian companies (the state itself no longer borrows on international markets), other Nordic states and international organisations such as the World Bank of which Norway is a member.

Moreover, borrowers must demonstrate a genuine need for the currency. Swaps into other currencies are effectively forbidden and use of the proceeds for undesirable investment purposes, such as the purchase of higher yielding domestic bonds would be frowned on.

The size of each issue is limited to NKr 250m and new issues are permitted only at the Finance Ministry's discretion, out of a waiting list of applications. The maximum amount has been increased steadily since the market opened in 1980 with a NKr 80m issue for the Nordic Investment Bank. Currently, however, it is the Ministry's policy to encourage a more regular flow of issues rather than allowing an increase in the maximum amount for individual bonds.

Bankers in Oslo say it is hard to predict the volume of issues that will be brought to the market in 1986, though the assumption is that a further gradual increase will be permitted.

The Ministry has no preset targets for issue volume, but likes to wait until an issue is firmly placed before giving the go-ahead to a new borrower.

This approach caused a hiatus in the market between March and June last year after a 9.5 per cent issue for Denmark met a lukewarm response.

But one thing that few seem afraid of is the prospect of the Euro-crown bond market being upset by upheavals on the domestic market, where rates could rise as monetary policy is tightened in the wake of excessive domestic credit expansion and worries about inflation.

The ban on foreign purchases of domestic bonds has successfully insulated the Euro-crown market from its domestic counterpart. Eurobond coupon levels are much more heavily influenced by interest rate trends in Germany where most buyers are located.

So long as Norway can maintain the basic confidence of these investors in its currency, all Norwegian borrowers have to do is offer a premium of, say, 2.5 per cent over German rates to get their paper away.

With German rates apparently on a downward trend, this could lead to an increase in an already unique market phenomenon — the wide discrepancy between rates at home and abroad.

Aim is to steer clear of increase in foreign debt

Swedish and Danish Borrowing
PETER MONTAGNON

FOR THE third year in a row Sweden will pursue a policy of making no net addition to the Government's foreign debt in 1986, says Mr Peter Engstrom, Director of the National Debt Office.

The state's foreign borrowing policy nowadays is dominated by operations designed to cut the cost of existing borrowings. In 1985 it raised some SKr 50bn in international capital markets, but of that total some SKr 5bn were used to repay maturing obligations and a further SKr 35bn went to pay off early debt, which is now regarded as too expensive.

That left net borrowing of SKr 10bn which was designed to create a once and for all boost to the country's foreign exchange reserves.

In 1986 the pattern will be much the same with no net borrowing abroad, although the level of gross borrowing will be determined by market opportunity. Sweden has just SKr 10bn in maturing obligations to repay this year and further borrowing will depend on whether market opportunities exist for refinancing other debts at lower cost.

Gone are the days when Sweden's planners worried that the latter part of the 1980s would see a repayment hump which would be difficult to refinance. "In terms of the maturity profile we can feel rather relaxed," Mr Engstrom says. Gone too is the large current account balance of payments deficit that forced Sweden into large foreign borrowings earlier in the decade.

A rapid deterioration in the payments balance in the early months of the year produced a current account deficit of SKr 11bn in the first nine months compared with a surplus of SKr 3bn in the same period of 1984.

Economists in Stockholm say the deterioration has, however, been halted as Sweden's foreign trade performance improved since early summer. The balance of payments outlook for 1986 is also positive due, among other things, to expectations that the oil price will decline, bringing a lower energy import bill, and that a fall in both the US dollar and interest rates should cut the cost of servicing foreign debt.

This improvement may well mask a more fundamental deterioration in the economy. PK Banken, for example, in a gloomy report published in November argued that the country faces years of low growth and rising unemployment as high wage levels and inflation cut into its international competitiveness.

Devaluation is no longer an option, the bank argues, and that will force the Government into a more austere fiscal policy.

That is something that causes international bankers little concern. Rather Sweden continues to be courted as a highly-rated debtor and that allows the country to command some of the best rates available in the international capital markets.

For example, Sweden is now a regular borrower in the short-term Euronote market, where its facilities outstanding total $5.8bn. At the start of December its drawings under these facilities totalled some $900m, down from an earlier peak of some $1.2bn. Euronote issues by Sweden regularly command a margin of some 6 basis points below Libid (the London interbank bid rate for Eurodollar deposits).

For medium- and long-term borrowing Sweden has demonstrated a clear preference for the floating rate note market, which it believes offers cheaper finance than the traditional Eurocredit.

Indeed, the National Debt Office shows a fairly strong antipathy to credits. For example, in 1985 it prepaid £650m in sterling credits but did not refinance them because of Bank of England regulations limiting the size of individual Eurosterling floating rate notes to £100m.

Similarly, its decision to withdraw a Y100bn Eurocredit in April, rather than accede to Japanese bankers' requests for higher margins, reflected a view that by paying a higher margin the credit would turn out much more expensive than a floating rate note and therefore made no sense.

Denmark, meanwhile, estimates that gross borrowings in 1985 totalled some DKr 92bn, allowing for an increase in reserves of DKr 12bn, after the current account deficit of DKr 22bn had been covered. This year's gross financing needs are expected to fall to DKr 69bn, partly as a result of a drop to DKr 16bn in the current account balance of payments deficit.

The totals include figures for net private sector capital imports in which purchases of domestic bonds by non-residents play an important part. These bonds are attractive, particularly to German investors because of the high level of Danish interest rates, although currency uncertainties could at some stage make the flow rather volatile.

This year Denmark intends to rely less heavily on private sector capital flows which are expected to fall to DKr 12bn from DKr 28bn in 1985. That will leave gross public sector borrowing at DKr 57bn compared with DKr 64bn in 1985, of which around half is borrowed by the Kingdom itself.

The forecasts for 1986 assume that there will no longer be a need to increase foreign exchange reserves and that the flow of early repayments of debt will slow to between DKr 3bn and DKr 10bn, depending on opportunities available to refinance at lower cost.

Denmark has now prepaid all its old syndicated loans bearing interest at a margin of 0.5 per cent or more over Libor and refinanced them mostly in the floating rate note market.

Now, however, says Mr Nils-Erik Sorensen of the Finance Ministry, Denmark has some floating rate notes outstanding which look expensive and could be refinanced.

Denmark has to compare the rates it is paying on existing debt with those available through raising fixed rate money in the bond market and swapping it for floating rate debt.

That can produce a cost of some 50 basis points or more below Libor. In November Denmark launched a $100m, five year, zero coupon issue which was swapped for a rate of 57 points below Libor.

With a total debt of some DKr 230bn, Denmark is a relatively heavy borrowed country. The debt amounts to nearly 40 per cent of gross national product, but Denmark is not under any particular pressure from the market.

New measures announced recently by the Government call for the balance of payments surplus to be eliminated altogether by 1988 and the expected fall in the deficit this year means that the relative weight of the debt to total output should start to decline.

Besides, Denmark's increased reserves provide a certain cushion as does its $1bn US commercial paper programme on which only $300m to $400m was drawn by the end of the year.

Says a relaxed Mr Sorensen, "We could refrain from borrowing abroad at all for the next nine months, though it does depend on the magnitude of private sector capital imports."

Leading way in use of innovations

Swedish Companies in the Euronote Market
PETER MONTAGNON

SWEDISH COMPANIES have been flocking to take advantage of the fast growing note issuance facilities sector of the Euromarket. According to the banking magazine Euromoney, Swedish borrowers organised 25 facilities worth US$4.96bn in the first 11 months of 1985. This compares with a total market of $41.5bn and put them third in the league table of most active borrowers after the US and Australia.

Bankers say that the rush of Swedish companies reflects in part the export-orientated international nature of their business. Also, government regulations, requiring them to finance investment abroad with foreign borrowings of at least five years duration, have made them particularly aware of new developments in the Euromarkets, and keen on innovations, such as Euronotes, which have only become popular in the last couple of years.

"Sweden and Swedish borrowers live in an environment where foreign currency borrowing is a natural element," says one banker familiar with the country. That means corporate treasurers are alert and sophisticated enough to take advantage of new instruments.

Note issuance facilities involve an agreement with a group of international banks for the sale of short-term negotiable paper in the money markets. The sale is backed up by a commitment from the banks to provide standby credit if the notes cannot be marketed at less than a pre-specified yield.

That means that a borrower is assured of access to money over the medium-term but the actual cost of borrowing reflects cheap short-term rates.

Nearly all the major Swedish companies (with the notable exception of Asea, which prefers to stick to borrowing in the US domestic market) have arranged such facilities.

For example, Volvo, the motor manufacturer which is perhaps Sweden's best known company, signed a $150m standby credit in June to back up the issue of Euronotes and US commercial paper. The 2½ year deal which was led by Enskilda Securities and Manufacturers Hanover bore an annual commitment fee of 5 basis points (hundredths of a per cent) for the first year, rising to 6.25 points thereafter.

If drawn the credit bears interest at a margin of ⅛ per cent above Libor (London Interbank Borrowing Rate), with an additional utilisation fee of up to 10 basis points depending on amounts.

The purpose of the facilities varies, however, from case to case. In some instances the borrowings have been designed to finance acquisitions, but another motive has been the refinancing of existing syndicated loans. Some companies have also put facilities in place to finance future acquisitions and investments abroad. But in every case the low cost of borrowing plays a significant role.

"Swedish companies can sell at very good prices," says Mr Matts Ekman, group treasurer of Electrolux, the white goods manufacturer. "We're getting closer to Libid (the bid rate for Eurodollar deposits in London). We hope to get down to Libid."

Ironically for many companies the borrowing spree has come at a time when they are already flush with cash, though their liquidity is essentially in domestic currency.

Sweden's tight regulations means this money cannot be invested abroad. Indeed, the rules on borrowing abroad to finance acquisitions form part of an official policy of encouraging the private sector to borrow to finance the country's current account balance of payments deficit.

From this perspective the Euronote market also offers companies an opportunity to raise money cheaply abroad and invest it in a profit on Sweden's domestic money market.

Since May when the Riksbank raised its discount rate by two percentage points to 11.5 per cent the difference between domestic money market rates and Eurodollar rates has added to the attraction of such arbitrage business, helping to promote a capital inflow through the private sector.

With most of the larger companies already in the Euronote market, attention is focusing on where things will go from here. Some bankers feel the Euronote phenomenon might spread from larger to smaller companies, especially since the arrival of foreign banks in Stockholm this year is bound to fuel a surge in competition for business.

But what does seem to be happening is a shift among the major companies away from facilities proper to the direct issuance of Eurocommercial paper.

A Eurocommercial paper programme involves the sale of Euronotes in the money markets but the difference with a facility is that it is not tied to a back-up credit from commercial banks.

The issuer thus saves the commitment fee on this credit, reducing his overall cost. A shift to the commercial paper market does, however, require the borrower to be confident of actually being able to sell the paper.

That sense of confidence seems to be growing. Electrolux, for example, first came to the note issuance market in December 1984 with a $100m facility led by Merrill Lynch. Now it also has a $150m commercial paper programme for which Credit Suisse, First Boston and Enskilda Securities are acting as dealers, and has increased the uncommitted (or non-underwritten) portion of its Merrill Lynch deal from $25m to $75m.

Having helped lead the way into Euronotes, Swedish companies are apparently helping promote the Eurocommercial paper market too.

Slower economic growth

CONTINUED FROM PAGE ONE

ment papers now constitute an important aspect of monetary policy.

Controls over capital movements have also been reduced, reflecting in part the country's very favourable real and financial situation buoyed up by North Sea oil revenues. Short-term capital is now fairly free to move and the controls on the purchase of Norwegian share capital have been liberalised.

For many working in Nordic business the pace of reform is still too slow, however, despite all that has been achieved in the past couple of years.

The Nordic countries still shy away from meaningful reforms that could lead to more fully integrated Scandinavian financial markets.

In recent weeks a group of prominent Nordic industrialists and bankers have renewed demands for a greater liberalisation of capital movements between the Nordic countries.

The group, which includes the chairman or chief executive of corporations such as Volvo and Asea in Sweden, Norsk Hydro and Christiania Bank in Norway, Nokia in Finland and United Breweries in Denmark, has come out in favour of creating a so-called Nordic stock market and of making it possible to place short-term investments in the various parts of the Nordic region.

Radically, the group wants Nordic citizens and entities to be exempted from regulations that cover the activities of "foreigners" in the region, thus giving domestic status to intra-Nordic financial operations.

But such far-reaching demands are likely to fall on deaf ears for the moment. Mr Kjell-Olof Feldt argued last year that "any liberalisation which could be limited to the Nordic countries would be in direct conflict with our international obligations under OECD rules, and the Nordic Governments have been, and continue to be, in full agreement not to go down this road. Whatever liberalisation of capital controls takes place in the Nordic countries, it will have to be implemented—as it has in the past—on a non-discriminatory basis, and apply equally to all countries."

In the meantime Scandinavian financial institutions and corporations are moving ahead in the direction of increased integration, despite the barriers placed in their way by the region's politicians.

Privatbanken, Denmark's third largest commercial bank, has recently joined Scandinavian Banking Partners (SBP), for example, the unusual co-operation pact already formed by three other leading Nordic banks, Skandinaviska Enskilda Banken of Sweden, Bergen Bank of Norway and Union Bank of Finland.

The agreement is aimed at offering customers a pan-Nordic banking service without the individual banks having to go to the considerable expense of establishing subsidiary banks in each Scandinavian country.

The four banks are taking shareholdings in each other — although Swedish legislation currently prevents the three non-Swedish banks taking a stake in S-E Banken — and together they have a network of more than 1000 offices in the Nordic region.

The SBP co-operation, which has been motivated by the arrival of new competition in the region from the foreign banks, is aimed at providing above all improved Nordic services in cash management, fast payments transfers and loans in local Nordic currencies.

The Nordic region still far from represents a single home market for Scandinavian corporations, but there are many signs that it is moving in that direction. The cause of Nordic integration is again becoming fashionable after spending several years in the doldrums.